OFFICIAL STATEMENT
Dated March 24, 2005

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: Moody's: "Aaa"
S&P: "AAA"
Fitch: "AAA"
(See "RATINGS" and "BOND INSURANCE" herein.)

In the opinion of Co-Bond Counsel (as hereinafter defined), interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing law and the Bonds are not private activity bonds. For a discussion of opinion of Co-Bond Counsel, including a description of the alternative minimum tax consequences for corporations, see "TAX MATTERS" herein.

$61,060,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM
REVENUE BONDS, SERIES 2005

Dated: April 1, 2005 **Due: February 1, as shown herein**

The $61,060,000 "City of San Antonio, Texas Municipal Drainage Utility System Revenue Bonds, Series 2005" (the "Bonds") are being issued by the City pursuant to the laws of the State of Texas, including Section 402.051, Texas Local Government Code, as amended, and an ordinance adopted by the City Council of the City on March 31, 2005 (the "Ordinance") to (i) finance the costs of drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City of San Antonio Municipal Drainage Utility System (the "System") and (ii) pay the costs of issuance of the Bonds (see "THE BONDS - Authority for Issuance of the Bonds" herein).

Interest on the Bonds will accrue from April 1, 2005 (the "Dated Date") and will be payable on August 1 and February 1 of each year, commencing August 1, 2005, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued as fully registered obligations in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds. So long as the Securities Depository is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by The Bank of New York Trust Company, N.A., Jacksonville, Florida, as the initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners (see "THE BONDS - Book-Entry-Only System" herein).

The Bonds are payable solely from and secured by a first lien on and a pledge of the Revenues (defined herein) of the System (see "THE BONDS").

The City is obligated to pay the Bonds and the interest thereon solely from the Revenues and neither the full faith and credit nor any physical properties of the City, including the System, are pledged to the payment of the principal of or interest on the Bonds. The Ordinance does not create a mortgage on, or other security interest in, the real or personal property constituting the System. The issuance of the Bonds does not directly or indirectly or contingently obligate the City to levy any form of taxation whatsoever therefor, or to make any appropriation for their payment, except from the Revenues. Neither the full faith and credit nor the taxing power of the City, the State of Texas, or any political subdivision thereof is pledged to the payment of the Bonds.

MBIA

The payment of principal and interest on the Bonds will be insured by a municipal bond issue insurance policy issued by MBIA Insurance Corporation.

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS.

The Bonds are offered for delivery, when, as, and if issued and received by the initial purchasers thereof (the "Underwriters") and subject to the approving opinion of the Attorney General of the State of Texas and the delivery of the legal opinion of Vinson & Elkins L.L.P, Houston, Texas, and Loeffler Tuggey Pauerstein Rosenthal LLP, San Antonio, Texas, as Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Winstead Sechrest & Minick P.C., San Antonio, Texas (see "LEGAL MATTERS" herein). It is expected that the Bonds will be available for initial delivery through the services of DTC on or about April 20, 2005.

Siebert Brandford Shank & Co., LLC **RBC Dain Rauscher**
First Southwest Company **JPMorgan**

$61,060,000
CITY OF SAN ANTONIO, TEXAS MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE BONDS, SERIES 2005

STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS

$48,990,000 Serial Bonds
(Due February 1)
(CUSIP No. [1] Prefix No. 796311)

Stated Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP No. [1]	Stated Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP No. [1]
2006	$ 1,310,000	3.500%	2.600%	AZ1	2017	$ 2,150,000	5.250%	4.120%	BL1
2007	1,355,000	3.500	2.750	BA5	2018	2,265,000	5.250	4.150	BM9
2008	1,405,000	3.500	2.930	BB3	2019	2,385,000	5.250	4.180	BN7
2009	1,455,000	4.000	3.120	BC1	2020	2,515,000	5.250	4.220	BP2
2010	1,515,000	4.000	3.320	BD9	2021	2,650,000	5.250	4.260	BQ0
2011	1,580,000	4.000	3.520	BE7	2022	2,795,000	5.250	4.300	BR8
2012	1,655,000	5.250	3.700	BF4	2023	2,945,000	5.250	4.330	BS6
2013	1,740,000	5.250	3.840	BG2	2024	3,105,000	5.250	4.360	BT4
2014	1,835,000	5.250	3.940	BH0	2025	3,270,000	5.250	4.400	BU1
2015	1,935,000	5.250	4.040	BJ6	2026	3,450,000	5.250	4.420	BV9
2016	2,040,000	5.250	4.070	BK3	2027	3,635,000	5.250	4.430	BX5

$12,070,000 Term Bonds

$12,070,000 5.000% Term Bonds maturing February 1, 2030 at 4.620%, CUSIP No. 796311BW7.
See "THE BONDS – Redemption Provisions" for mandatory redemption table.

OPTIONAL REDEMPTION. The Bonds having stated maturities on and after February 1, 2016 are subject to optional redemption in whole or in any part thereof, in the principal amounts of $5,000 or any integral multiple thereof, on February 1, 2015 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Redemption Provisions” herein).

* * *

[1] CUSIP numbers have been assigned to the Bonds by Standard & Poor’s CUSIP Service Bureau, A Division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Bonds. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF SAN ANTONIO, TEXAS
CITY ADMINISTRATION

CITY COUNCIL:

Name	Years on City Council	Term Expires	Occupation
Ed Garza, Mayor*	7 Years, 10 Months	May 31, 2005	Land Planner
Roger O. Flores, District 1	1 Year, 10 Months	May 31, 2005	Restaurant Owner
Joel Williams, District 2	1 Year, 10 Months	May 31, 2005	Civil Service
Ron H. Segovia, District 3	1 Year, 10 Months	May 31, 2005	Small Business Owner
Richard Perez, District 4	1 Year, 10 Months	May 31, 2005	Small Business Owner
Patti Radle, District 5	1 Year, 10 Months	May 31, 2005	Agency Director and Teacher
Enrique M. Barrera, District 6*	5 Years, 2 Months	May 31, 2005	Retired, Texas Workforce Commission
Julián Castro, District 7*	3 Years, 10 Months	May 31, 2005	Attorney
Art A. Hall, District 8	1 Year, 10 Months	May 31, 2005	Attorney, Investment Banker
Carroll Schubert, District 9*	3 Years, 10 Months	May 31, 2005	Attorney
Christopher "Chip" Haass, District 10	1 Year, 10 Months	May 31, 2005	Teacher, Consultant

* Not eligible for re-election based on the City's term limit policy.

CITY OFFICIALS:

Name	Position	Years with City of San Antonio at March 1, 2005	Years in Current Position
J. Rolando Bono[(1)]	Interim City Manager	27 Years, 5 Months	6 Months
Melissa Byrne Vossmer	Assistant City Manager	6 Years, 10 Months	6 Years, 10 Months
Christopher J. Brady	Assistant City Manager	8 Years, 8 Months	5 Years, 2 Months
Jelynne L. Burley	Assistant City Manager	21 Years	2 Years, 9 Months
Frances A. Gonzalez	Assistant City Manager	20 Years, 6 Months	1 Year, 5 Months
Roland Lozano	Assistant to the City Manager	24 Years, 8 Months	4 Years
Erik J. Walsh	Assistant to the City Manager	10 Years, 10 Months	4 Years
Andrew Martin	City Attorney	3 Years	3 Years
Leticia M. Vacek	City Clerk	9 Months	9 Months
Thomas G. Wendorf	Director of Public Works	6 Years	4 Years, 3 Months
Milo Nitschke	Director of Finance	10 Years, 6 Months	3 Years, 6 Months
Peter Zanoni	Director of Management and Budget	8 Years	6 Months

On September 10, 2004, through Ordinance No. 99703, City Council accepted the resignation of City Manager Terry M. Brechtel. Ms. Brechtel's resignation was effective October 1, 2004. J. Rolando Bono was appointed to serve as Interim City Manager through Ordinance No. 99821; and the terms and conditions of his employment were adopted and approved by Ordinance No. 99850. Mr. Bono will continue to serve as Interim City Manager until such time as the City Council appoints a City Manager. The City Council has identified a candidate for City Manager and is in negotiations with her. References herein to the "City Manager" include the "Interim City Manager."

CONSULTANTS AND ADVISORS:

Co-Bond Counsel	Vinson & Elkins L.L.P., Houston, Texas and Loeffler Tuggey Pauerstein Rosenthal LLP, San Antonio, Texas
Co-Certified Public Accountants	KPMG L.L.P., San Antonio, Texas Leal & Carter, P.C., San Antonio, Texas and Robert J. Williams, CPA, San Antonio, Texas
Co-Financial Advisors	Coastal Securities, San Antonio, Texas and Estrada Hinojosa & Company, Inc., San Antonio, Texas

USE OF INFORMATION IN THE OFFICIAL STATEMENT

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a promise or guarantee by the Co-Financial Advisors or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth hereinafter the date of this Official Statement.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE ISSUE AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates, and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

The agreements of the City and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Neither the City, the Co-Financial Advisors, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

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OFFICIAL STATEMENT
Relating to the
$61,060,000
CITY OF SAN ANTONIO, TEXAS
MUNICIPAL DRAINAGE UTILITY SYSTEM
REVENUE BONDS, SERIES 2005

INTRODUCTION

This Official Statement of the City of San Antonio, Texas (the "City") is provided to furnish information in connection with the sale of the "City of San Antonio, Texas Municipal Drainage Utility System Revenue Bonds, Series 2005" (the "Bonds"), in the aggregate principal amount of $61,060,000. This Official Statement describes the Bonds, the Ordinance (defined herein), and certain other information about the City and the System (defined herein). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Capitalized terms not defined herein have the meanings ascribed thereto in the Ordinance (see "APPENDIX B – Selected Provisions of the Ordinance" attached hereto). Copies of such documents may be obtained from the City at the Office of the Director of Finance, City Hall Annex, 506 Dolorosa, San Antonio, Texas 78204 and, during the offering period, from the City's Co-Financial Advisors, Coastal Securities, 600 Navarro, Suite 350, San Antonio, Texas, 78205, or Estrada Hinojosa & Company, Inc., 100 W. Houston Street, Suite 1485, San Antonio, Texas, 78205, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State. The City was incorporated in 1837 and is a Home Rule Municipality that operates pursuant to the City of San Antonio City Charter (the "City Charter"), which was adopted in 1951 and became effective on January 1, 1952. The City operates under a Council/Manager form of government with a City Council comprised of 11 members, with 10 members elected from single-member districts, and the Mayor elected at-large. The office of the Mayor is considered a separate office. The terms of the Mayor and the Council Members are two years and subject to term limitations of two full terms as imposed in the City Charter. The City Council appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. Some of the services that the City provides include public safety (police and fire protection), highways and streets, electric, gas, water and sanitary sewer utilities, health and social services, culture/recreation, public transportation, public improvements, planning and zoning, and general administrative services. The Census 2000 compiled by the U.S. Census Bureau estimated the City's population at 1,144,646. The City's Department of Planning estimated a City population of 1,282,800 at December 31, 2004. Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448 square miles (full purpose annexations only) or 512 square miles (both full purpose and limited purpose annexations).

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's undertaking to provide certain information on a continuing basis.

PURPOSES AND PLAN OF FINANCING

Purposes of the Bonds

The Bonds are being issued to provide funds to: (i) finance the costs of drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City's Municipal Drainage Utility System (the "System") and (ii) pay the costs of issuing the Bonds.

Sources and Uses of Proceeds of the Bonds

The following represents a summary of the application of the Bond proceeds and the sources and uses of funds:

Sources of Funds:	
Par Amount of Bonds	61,060,000.00
Net Premium	3,735,829.15
Accrued Interest	160,833.68
Total	$64,956,662.83
Uses of Funds:	
Construction Fund Deposit	$64,000,000.00
Interest and Sinking Fund Deposit	160,833.68
Costs of Issuance (including Insurance Premium)	422,394.85
Underwriters' Discount	373,434.30
Total	64,956,662.83

THE BONDS

General Description

Interest on the Bonds accrues from April 1, 2005 (the "Dated Date"), and is payable semiannually on August 1 and February 1 of each year, commencing August 1, 2005. The principal of and interest on the Bonds are payable in the manner described herein under "THE BONDS – Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the Registration Books (defined herein) as of the fifteenth day of the month next preceding such interest payment date, by check, mailed first-class postage prepaid, to the address of such person on the Registration Books or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, the principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated payment office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Bonds is a Saturday, a Sunday, a legal holiday, or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized to close or the United States Post Office is not open for business, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to the City Charter, the general laws of the State, particularly Section 402.051, Texas Local Government Code, as amended, and the ordinance adopted by the City Council on March 24, 2005 authorizing the issuance of the Bonds (the "Ordinance").

Security for the Bonds

General. Pursuant to authority conferred by the Municipal Drainage Utility System Act (Subchapter C of Chapter 402, Texas Local Government Code, as amended) (the "Act"), the City Council adopted an ordinance in 1997 declaring the drainage of the City to be a public utility, enabling the City to bill, along with other municipal utility system billings, a separate charge against lots and tracts of benefited property in the City for drainage services. The 1997 creation ordinance was validated pursuant to the provisions of Section 51.003, Texas Local Government Code, as amended. The City issued its first series of bonds payable from the Revenues (as defined in the Ordinance) of the System in 2003, being the $43,695,000 "City of San Antonio, Texas Municipal Drainage

Utility System Revenue Bonds, Series 2003." The Revenues are pledged to the payment of the Bonds to the extent and in the manner specified in the Ordinance (see "APPENDIX B – Selected Provisions of the Ordinance").

The Bonds are special and limited obligations of the City, payable solely from and secured by a lien on and pledge of the Revenues. Such pledge securing the Bonds will at all times and in all respects be on a parity with the pledges to secure the Outstanding Bonds and any Additional Bonds (defined herein) (the Bonds, the Outstanding Bonds, and the Additional Bonds, collectively, the "Bonds Similarly Secured").

Special Obligations. The Bonds, together with the Bonds Similarly Secured, are special obligations of the City payable solely from and equally and ratably secured by a first lien on and pledge of the Revenues.

The City is not obligated to pay the Bonds or the interest thereon from any source except from the Revenues and neither the full faith and credit nor any physical properties of the City, including the System, are pledged to the payment of the Bonds. The issuance of the Bonds does not directly or indirectly or contingently obligate the City to levy any form of taxation or to make any appropriation for their payments except from the Revenues. **NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF TEXAS, OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS**.

Perfection of Security Interest. Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of the Revenues thereto, and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Revenues is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Additional Bonds. Subject to satisfying the terms and conditions prescribed therefore, the City has reserved the right to issue additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Revenues (the "Additional Bonds"), in the same manner and to the same extent as the Bonds.

The Ordinance permits the City to issue Additional Bonds for any authorized purpose, including the issuance of refunding bonds. Among the conditions specified for the issuance of such Additional Bonds, the City is required to secure a certificate of the City Manager or the City's Director of Finance to the effect that, according to the books and records of the City, the Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 18 months, immediately preceding the date of issuance of the Additional Bonds (the date of issuance being the date of delivery of all or a portion of the Additional Bonds to the initial purchasers thereof) are at least equal to 1.25 times the Average Annual Debt Service Requirements for all Bonds Similarly Secured after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Revenues, the City Manager or the City's Director of Finance may take into consideration a change in the charges for services afforded by the System that became effective at least 60 days prior to the last day of the period for which Revenues are determined and, for purposes of satisfying the above coverage test relating to Revenues, make a pro forma determination of the Revenues for the period of time covered by the certification based on such change in charges being in effect for the entire period covered by the certificate of the City Manager or the City's Director of Finance (see "APPENDIX B – Selected Provisions of the Ordinance").

Reserve Fund. The City has provided for the creation of the Reserve Fund. The amount to be accumulated and maintained in such fund is an amount at least equal to the Average Annual Debt Service requirements of both the Bonds and any Additional Bonds issued on a parity therewith. The total amount to be accumulated and maintained in the Reserve Fund may be established in whole or in part from the Revenues, the proceeds of the sale or sales of Bonds Similarly Secured, or by depositing to the credit of the Reserve Fund one or more surety bonds or insurance policies issued by a company or institution issuing such bonds or policies in its normal course of business; provided, however, that the City is not required to fund the Reserve Fund when Revenues for each Fiscal Year are equal to at least 1.75 times the Average Annual Debt Service Requirements (see "APPENDIX B – Selected Provisions of the Ordinance"). The City will not be required to fund the Reserve Fund upon delivery of the Bonds.

Rate Covenant. In the Ordinance, the City agrees, while any of the Bonds are Outstanding, to establish, maintain, and impose monthly drainage charges for facilities and services afforded by the System reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Revenues in each Fiscal Year (i) to pay the principal of and interest on the Bonds Similarly Secured (including any credit agreement) and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Bonds Similarly Secured, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the Revenues; (ii) to pay for all Operating and Maintenance Expenses; (iii) in an amount equivalent to at least 1.25 times the annual Debt Service Requirements for the Fiscal Year on the Bonds Similarly Secured then Outstanding; and (iv) to pay all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues (see APPENDIX B – Selected Provisions of the Ordinance").

Flow of Funds. In the Ordinance, the City covenants and agrees that the Revenues (excluding earnings and income derived from investments held in the Bond Fund and the Reserve Fund) will be deposited as collected and designated as a fund maintained at an official depository of the City to be credited on the books and records of the City as the "Drainage Utility System Fund" (the "System Fund"). All Revenues deposited in the System Fund are pledged and appropriated, to the extent required, for the following uses and in the order of priority shown:

First: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service Requirements on the Bonds Similarly Secured (including any credit agreement) as the same becomes due and payable;

Second: To the payment of all necessary and reasonable Operating and Maintenance Expenses; and.

Third: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of the Ordinance or any other ordinance authorizing the issuance of Bonds Similarly Secured including payment amounts, if any, pursuant to the terms of a credit facility.

Amounts remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be transferred to the City's general fund or used for any other purpose now or hereafter permitted by law.

Redemption Provisions

Mandatory Redemption. The Term Bonds are subject to mandatory sinking fund redemption prior to their stated maturities from money required to be deposited in the Bond Fund for such purpose and will be redeemed in part, by lot or other customary method, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on February 1 in each of the years as set forth below:

Term Bonds
Stated to Mature
on February 1, 2030

Year	Principal Amount
2028	$3,825,000
2029	4,020,000
2030	4,225,000*

*Payable at Stated Maturity

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions will be reduced, at the option of the City, by the principal amount of any Term Bonds of such

Stated Maturity which, at least 50 days prior to the mandatory redemption date has been (i) defeased or acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (ii) purchased and canceled by the Paying Agent/Registrar at the request of the City with money in the Bond Fund, or (iii) redeemed pursuant to the optional redemption provisions set forth below and not theretofore credited against a mandatory redemption requirement.

Optional Redemption. The City reserves the right, at its sole option, to redeem the Bonds stated to mature on or after February 1, 2016, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof on February 1, 2015, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The City will determine the maturity or maturities, and the principal amount of the Bonds within each maturity to be redeemed. If less than all of the Bonds within a stated maturity are to be redeemed, the particular Bonds to be redeemed will be selected at random and by lot by the Paying Agent/Registrar.

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of any Bonds or portions thereof prior to stated maturity, the City must cause written notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Bond or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar (the "Registration Bonds") on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision must be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Bonds or portions thereof which are to be so redeemed thereby automatically will be treated as redeemed prior to their scheduled maturities, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

Denominations. Bonds of a denomination larger than $5,000 may be redeemed in part ($5,000 or any integral multiple thereof). Any Bonds to be partially redeemed may be surrendered in exchange for one or more new Bonds in authorized denominations of the same stated maturity, series, and interest rate for the unredeemed portion of the principal.

Redemption through The Depository Trust Company. The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance, or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or by any DTC Participant or Indirect Participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of the Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of the Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed thereupon will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to DTC Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption (see "THE BONDS – Book-Entry-Only System").

Paying Agent/Registrar

The initial Paying Agent/Registrar is The Bank of New York Trust Company, N.A., Jacksonville, Florida (the "Paying Agent/Registrar"). In the Ordinance, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the Bonds are duly paid, and the City retains the right to replace the Paying Agent/Registrar.

Successor Paying Agent/Registrar

Provision is made in the Ordinance for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City must be either a qualified national or state banking or financing institution doing business under the laws of the United States of America or of any state and legally authorized to exercise trust powers and to serve as a Paying Agent/Registrar. The successor Paying Agent/Registrar, if any, will be determined by the City. Upon a change in the Paying Agent/Registrar for the Bonds, the City is required to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid.

Transfer, Exchange, and Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be registered, transferred, assigned, and exchanged on the Registration Books only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, transfer, and exchange. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated payment office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner, to the extent possible, within three business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.

Mutilated, Destroyed, Lost, or Stolen Bonds

The City has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Limitation on Transfer

Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds (i) during the period commencing at the close of business on the Record Date (defined herein) and ending at the opening of business on the next interest payment date and (ii) with respect to the Bonds selected for redemption in whole or in part, within 45 days of the date fixed for redemption; provided, however, this limitation is not applicable to the transfer or exchange of the unredeemed balance of the Bonds called for redemption in part.

Defaults and Remedies

The Ordinance does not establish specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of and interest on any Bond when due, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinance, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenant, obligations, or conditions. Such right is in addition to any other rights the registered owners of Bonds may be provided by the laws of the State. Under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. The principal of and interest on the Bonds will not be accelerated upon default and there is no security interest granted in any property owned by the City. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to collect Revenues sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time-consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court), and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Record Date for Interest Payment

The date for determining the person to whom the semiannual interest is payable on any interest payment date (the "Record Date") is the fifteenth day of the month next preceding such interest payment date, as specified in the Ordinance. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new Record Date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a Bond appearing on the Registration Books at the close of business on the day next preceding the date of mailing of such notice.

Amendments

The City may, without the consent of or notice to any registered owners, amend, change, or modify the Ordinance as may be required (i) by the provisions of the Ordinance, (ii) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein, or (iii) in connection with any other change which is not to the prejudice of the registered owners. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, change, modify, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, change, modification, or rescission may (i) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds; (ii) give any preference to any Bond over any other Bond; or (iii) reduce the aggregate principal amount of Bonds required for consent to any amendment, change, modification, or waiver.

Defeasance

The Ordinance provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise) is provided by irrevocably depositing with a paying agent in trust (i) money in an amount sufficient to make such payment and (ii) Government Securities certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the respective series of Bonds. The Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding or unpaid; provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Payment Record

The City has never defaulted in payments on its bonded indebtedness.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC") while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Bonds Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other Bonds transactions in deposited Bonds through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of Bonds certificates. Direct Participants include both U.S. and non-U.S. Bonds brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Bonds Clearing Corporation Government Bonds Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Bonds Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. Bonds brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Bonds and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Paying Agent Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC – (nor its nominee) – the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner will give notice to elect to have its Bonds purchased or tendered, through its Participant, to Paying Agent/Registrar, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to Paying Agent/Registrar. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as Bonds depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Bonds depository). In that event, Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the City will have no obligation or responsibility to the DTC Participants or Indirect participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other section of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

THE SYSTEM

The Act provides the statutory authority for municipalities to establish a drainage utility system and to develop a corresponding schedule of charges therefore within the municipality and, in certain circumstances, within the municipality's extraterritorial jurisdiction. This statutory authority was created in order to provide municipalities with a funding source to comply with the federal Environmental Protection Agency's (the "EPA") mandated stormwater quality requirements, as well as to pay local drainage system operating and maintenance costs. Additionally, the revenues resulting from these drainage fees can be pledged to the payment of debt incurred for drainage improvement purposes.

The City currently assesses two drainage fees, known as the "Fee In Lieu of Detention Pond" and the "Stormwater Drainage Service Fee," respectively.

In response to the aforementioned EPA requirements, the City created the System and established its Municipal Drainage Utility Fund (the "System Fund") in September 1997 to capture revenues from, and pay expenditures for services related to the management of, municipal drainage activity. The City, the Texas Department of Transportation – San Antonio District, and the City-owned utility named the San Antonio Water System ("SAWS"), as co-permitees under the "National Pollutant Discharge Elimination System" ("NPDES"), Permit No. TX58001901 (the "Permit"), are responsible for stormwater runoff quality monitoring and maintenance. The Permit, recently delegated by the EPA to the Texas Commission on Environmental Quality ("TCEQ") for renewal as TPDES Permit No. 04284. TCEQ is reviewing comments and will issue permit when comments have been resolved.

As a result of the responsibilities arising under the Permit, the City and SAWS entered into an interlocal contract (the "Interlocal Contract") to set forth the specific responsibilities of each entity in accomplishing the implementation of the Permit's requirements.

Under the Interlocal Contract, the City retains overall responsibility relating to its drainage activity. SAWS is obligated to perform certain duties relating to the City's municipal drainage activity, including: (i) instream monitoring, sampling, testing, and analysis; (ii) industrial site inspection; (iii) water quality modeling on a watershed basis; (iv) illicit connection inspection; (v) billing, collection/accounting, and other customer service functions; (vi) legal services; and (vii) public education. The terms of the Interlocal Contract also require that SAWS annually prepare a work plan and budget, which is approved by the City, detailing specific programs to be undertaken that year and the proposed costs therefor. The actual costs for fiscal year 2004 were $2,841,339, for which SAWS was reimbursed from collected drainage fees. For fiscal year 2005, the amount budgeted by the City for these anticipated costs total $2,746,327, for which SAWS will be reimbursed from collected drainage fees.

Fee In Lieu of Detention Pond. The Fee in Lieu of Detention Pond, a one-time assessment levied against developers of land and assessed and collected by the City, is determined by acreage and property use according to the following fee schedule:

<u>One-family (unattached) and two family (duplex) developments</u>
$1,200.00 per acre or $750.00 per lot, whichever is less

<u>Residential development – other than one-family and two-family</u>
$1,600.00 per acre

<u>Non-residential (less than 65% impervious cover)</u>
$2,600.00 per acre

<u>Non-residential (65% or more impervious cover)</u>
$3,000.00 per acre

The Fee in Lieu of Detention Pond is not assessed against drainage easements or rights of usage (if either is in a pervious condition) or permanent detention facilities.

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Stormwater Drainage Service Fee. The monthly Stormwater Drainage Service Fee is collected by SAWS from its customers pursuant to the terms of the Interlocal Contract. The Stormwater Drainage Service Fee was recently increased by the City Council, such rate increase becoming effective December 19, 2004. The following schedule depicts the current Stormwater Drainage Service Fees:

Customer Class/Tier Square Foot (SF)	Billing Unit by Per (Gallons) Charge	Billing Unit Per Month Charge
Residential Rates		
Tier 1	0 – 4,999	$ 2.78
Tier 2	5,000 or more	3.68
Multifamily Rates		
Tier 1	0 – 21,999	$ 6.19
Tier 2	22,000 – 43,999	19.37
Tier 3	44,000 – 131,999	58.73
Tier 4	132,000 or more	279.49
Commercial/General Rates		
Tier 1	0 – 21,999	$ 15.85
Tier 2	22,000 – 43,999	43.35
Tier 3	44,000 – 86,999	77.70
Tier 4	87,000 – 131,999	133.91
Tier 5	132,000 or more	295.87
Public Rates		
Tier 1	0 – 21,999	$ 15.70
Tier 2	22,000 – 43,999	42.94
Tier 3	44,000 – 86,999	77.56
Tier 4	87,000 or more	131.12

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The following Tables 1 through 3, provided by the City's Finance Department, contain information on Operating Revenues and Expenditures, Debt Service Requirements and Coverage Ratios, and the historical and projected financial performance for the System.

The System's operating revenues and expenditures are shown below for the past five years.

Table 1 – Condensed Statement of Operations

	Fiscal Year Ending September 30				
	2004*	2003	2002	2001	2000
Revenues:					
Stormwater Drainage Service Fee	$22,091,417	$21,049,293	$16,609,215	$16,796,535	$16,382,310
Fee In Lieu of Detention Pond	4,696,942	3,709,324	3,077,663	3,838,921	3,710,866
Miscellaneous	925,041	3,610	697,758	5,116	821
Interest Income	169,652	170,755	200,043	456,175	252,884
Transfers from Other Funds	47,419	128,549	86,875	58,253	290,158
Total Revenues	$27,930,471	$25,061,531	$20,671,554	$21,155,000	$20,637,039
Less: Fee In Lieu of Detention Pond Revenues(1)	(4,863,252)	(3,871,345)	(3,273,726)	(4,248,473)	(3,902,738)
Total Stormwater Revenues	$23,067,219	$21,190,186	$17,397,828	$16,906,527	$16,734,301
Expenditures:					
Drainage Improvement	$16,995,800	$16,690,112	$16,494,630	$15,347,661	$15,471,405
Maintenance (2)	540,799	591,255	517,124	176,695	156,289
Transfers to Other Funds	7,471,244	3,107,674	898,833	3,698,659	2,586,517
Total Expenditures	$25,007,843	$20,389,041	$17,910,587	$19,223,015	$18,214,211
Less: Fee In Lieu of Detention Pond Expenditures	(3,081,678)	(868,739)	(622,124)	(1,153,134)	(240,737)
Total Stormwater Expenditures	$21,926,165	$19,520,302	$17,288,463	$18,069,881	$17,973,474
Excess of Stormwater Revenues over Expenditures and Other Financing Uses	$1,141,054	$1,669,884	$ 109,365	$(1,163,354)	$(1,239,173)
Fund Balance at Beginning of Year	$17,721,841	$13,310,772	$10,577,211	$ 8,981,839	$ 7,649,066
Less: Fee In Lieu of Detention Pond Fund Balance at Beginning of Year	(15,227,028)	(12,224,422)	(9,600,226)	(6,504,887)	(2,842,886)
Less: Capital Expenditures	(267,763)	(261,421)	(27,406)	(336,613)	(1,090,055)
Plus: Fee In Lieu of Detention Pond Capital Expenditures	--	--	27,406	--	--
Stormwater Fund Balance at End of Year	$ 3,368,104	$ 2,494,813	$ 1,086,350	$ 976,985	$ 2,476,952

* Unaudited.
(1) Includes Fee in Lieu of Detention Pond, along with interest and other miscellaneous income related thereto.
(2) Includes transfers to SAWS for collection of the Stormwater Service Drainage Fee and to pay the costs of certain designated projects (see "THE SYSTEM").

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The ratios of total revenues to the average annual and maximum annual debt service requirements for the System are shown below:

Table 2 – Coverage and Fund Balances

Fiscal Year 2004 Total Revenues Available for Debt Service	$23,067,219*
Average Annual Debt Service Requirements	$7,067,064
Coverage of Annual Average Debt Service Requirements	3.26x
Maximum Annual Debt Service Requirements for Fiscal Year 2028	$7,308,626
Coverage of Maximum Debt Service Requirements	3.16x

* Unaudited.

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A comparison of the revenues and expenditures for the past five fiscal years and the projections for the subsequent five years is shown below.

Table 3 – Historical and Projected System Operating Cashflow

Historical[1]	2004*	2003	2002	2001	2000
Stormwater Revenues:					
Gross Operating Revenues	$22,091,417	$21,049,294	$16,609,215	$16,796,535	$16,382,310
Gross Non-Operating Revenues	975,802	140,892	788,613	109,992	351,991
Total Stormwater Revenues Available for Debt Service	$23,067,219	$21,190,186	$17,397,828	$16,906,527	$16,734,301
Annual Debt Service Requirements	$ 2,973,838	$ 487,297	$ -	$ -	$ -
Coverage of Annual Debt Service Requirements	7.76	43.49	N/A	N/A	N/A

Projected[1][2]	2005	2006	2007	2008	2009
Stormwater Revenues:					
Gross Operating Revenues	$25,594,369	$26,679,127	$26,812,523	$26,946,585	$27,081,318
Gross Non-Operating Revenues	10,420	10,420	10,420	10,420	10,420
Total Stormwater Revenues Available for Debt Service	$25,604,789	$26,689,547	$26,822,943	$26,957,005	$27,091,738
Annual Debt Service Requirements	$ 1,961,398	$ 7,306,413	$ 7,305,576	$ 7,308,626	$ 7,301,638
Coverage of Annual Debt Service Requirements	13.05	3.65	3.67	3.69	3.71

* Unaudited.
(1) Numbers are at Fiscal Year ending September 30.
(2) Projections based upon a 19.5% increase in Stormwater Drainage Fees, which became effective on December 19, 2004.

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Table 4 below shows the debt service payable on the Outstanding Bonds.

TABLE 4 – DEBT SERVICE SCHEDULE

		The 2005 Bonds			
Fiscal Year	Existing Debt Service	Principal	Interest	Annual Debt Service	Total Debt Service Requirement
2005	$ 945,606		$ 1,015,792	$ 1,015,792	$ 1,961,398
2006	2,971,963	$ 1,310,000	3,024,450	4,334,450	7,306,413
2007	2,972,763	1,355,000	2,977,813	4,332,813	7,305,576
2008	2,974,113	1,405,000	2,929,513	4,334,513	7,308,626
2009	2,970,813	1,455,000	2,875,825	4,330,825	7,301,638
2010	2,970,613	1,515,000	2,816,425	4,331,425	7,302,038
2011	2,969,975	1,580,000	2,754,525	4,334,525	7,304,500
2012	2,973,438	1,655,000	2,679,481	4,334,481	7,307,919
2013	2,972,738	1,740,000	2,590,363	4,330,363	7,303,101
2014	2,973,138	1,835,000	2,496,519	4,331,519	7,304,657
2015	2,971,138	1,935,000	2,397,556	4,332,556	7,303,694
2016	2,971,638	2,040,000	2,293,213	4,333,213	7,304,851
2017	2,974,438	2,150,000	2,183,225	4,333,225	7,307,663
2018	2,970,388	2,265,000	2,067,331	4,332,331	7,302,719
2019	2,973,513	2,385,000	1,945,269	4,330,269	7,303,782
2020	2,971,888	2,515,000	1,816,644	4,331,644	7,303,532
2021	2,970,388	2,650,000	1,681,063	4,331,063	7,301,451
2022	2,973,638	2,795,000	1,538,131	4,333,131	7,306,769
2023	2,970,816	2,945,000	1,387,456	4,332,456	7,303,272
2024	2,972,128	3,105,000	1,228,644	4,333,644	7,305,772
2025	2,973,238	3,270,000	1,061,300	4,331,300	7,304,538
2026	2,972,263	3,450,000	884,900	4,334,900	7,307,163
2027	2,973,775	3,635,000	698,919	4,333,919	7,307,694
2028	2,973,994	3,825,000	507,875	4,332,875	7,306,869
2029	0	4,020,000	311,750	4,331,750	4,331,750
2030	0	4,225,000	105,625	4,330,625	4,330,625
	$69,308,403	$61,060,000	$48,269,607	$109,329,607	$178,638,010

INVESTMENTS

Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act"), and in accordance with an Investment Policy approved by the City Council. The Investment Act requires that the City establish an investment policy to ensure that City funds are invested only in accordance with State law. The City has established a written investment policy adopted September 30, 2004. The City's investments are managed by its Director of Finance, who, in accordance with the Investment Policy, reports investment activity to the City Council.

Legal Investments

Under Texas law, the City is authorized to invest in (i) obligations of the United States or its agencies and instrumentalities; (ii) direct obligations of the State or its agencies and instrumentalities; (iii) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (iv) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (v) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (vi) certificates of deposit issued by a state or national bank, savings bank, or a state or federal credit union, which is domiciled in the State, that are guaranteed or insured by the Federal Deposit Insurance Corporation, guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in the clauses (i) through (v) or in any other manner and amount provided by law for City deposits; (vii) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (i), requires the securities being purchased by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer or a financial institution doing business in the State; (viii) bankers' acceptances with the remaining term of 270 days or less, which will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least "A-l" or "P-I" or the equivalent by at least one nationally recognized credit rating agency; (ix) commercial paper with a stated maturity of 270 days or less and is rated at least "A-I" or "P-I" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (x) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Act of 1940; (xi) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent; and conforms to the requirements for eligible investment pools; (xii) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA-m" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days; (xiii) bonds issued, assumed, or guaranteed by the State of Israel; and (xiv) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than prohibited obligations described in the next succeeding paragraph, with a defined termination date, and pledged to the City and deposited with the City or a third party selected and approved by the City.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pool are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in (i) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (ii) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (iii) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (iv) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the City is required to invest its funds in accordance with written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pool fund groups, and the methods to monitor the market price of investments acquired with public funds and the requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (i) suitability of investment type; (ii) preservation and safety of principal; (iii) liquidity; (iv) marketability of each investment; (v) diversification of the portfolio; and (vi) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City must submit to the City Council an investment report detailing (i) the investment position of the City; (ii) that all investment officers jointly prepared and signed the report; (iii) the beginning market value, any additions and changes to market value, the fully accrued interest, and the ending value of each pooled fund group; (iv) the book value and market value of each separately listed asset at the beginning and end of the reporting period; (v) the maturity date of each separately invested asset; (vi) the account or fund or pooled fund group for which each individual investment was acquired; and (vii) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

Additional Provisions

Under Texas law the City is additionally required to: (i) annually review its adopted policies and strategies; (ii) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said ordinance or resolution; (iii) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (iv) require the qualified representative of firms offering to engage in an investment transaction with the City to: (1) receive and review the City's investment policy, (2) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (3) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (v) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (vi) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (vii) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (viii) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (ix) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (x) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments

At September 30, 2004, investable City funds in the approximate amount of $701,643,098 are 87.41% invested in obligations of the United States or its agencies and instrumentalities, and 11.38% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 1.21% of the City's portfolio includes a portion of the convention center debt service reserve fund of $8,499,915, which is invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings.

The market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 99.99% of their book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

GENERAL LITIGATION AND CLAIMS

General Litigation and Claims

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages alleging that the City caused personal injuries and wrongful deaths, class actions and promotional practices, various claims from contractors for additional amounts under construction contracts, property tax assessments, and various other liability claims. The amount of damages in most of the pending lawsuits are capped under the Texas Tort Claims Act; therefore, the potential liability for all such lawsuits, assessments, and various other claims is approximated at $8.9 million and is included in the reserve recorded in the City's Insurance Reserve Fund. The status of such litigation ranges from early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits, including pursuit of any and all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such lawsuits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner so as to have a material adverse financial impact upon the City.

Information regarding various lawsuits against the City included in the City's Comprehensive Annual Financial Report ("CAFR") at Footnote 11, entitled "Commitments and Contingencies," is attached hereto and incorporated herein as Appendix C, entitled "Selected portions of the City's Comprehensive Annual Financial Report for the year ended September 30, 2003." In addition, the City provides the following updates to those cases and additional information on cases not contained in this Appendix C:

Charles and Tracy Pollock, individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance case whereby the Plaintiff is alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contraction of acute lymphoblastic leukemia. Although the jury at trial entered against a judgment of more than $23 million against the City, the trial court immediately reduced this by $6 million. On appeal, the Fourth Court of Appeals subsequently sided with the City and reduced the judgment further by eliminating $10 million in exemplary damages. The remaining issue is whether personal injuries are recoverable under the Plaintiff's theory of nuisance. The City believes they are not and that even if they are recoverable, damages are capped at $250,000 under the Texas Tort Claims Act. The City has appealed the matter to the Texas Supreme Court.

Matthew Jackson et al. v. City of San Antonio. This is a Fair Labors Standards Act ("FLSA") lawsuit. It was brought as an opt-in class action, and 335 plaintiffs have opted in to the litigation. In general, the plaintiffs claim they were required to report for duty 15 minutes prior to their shift, that they had to work beyond the end of their shifts, and that they were not compensated for the time at the overtime rate, in violation of the FLSA. They claim that they were (and are) entitled to be paid at 1.5 times their regular hourly rate for off-duty assignments on City property, and they make several lesser allegations based on the FLSA as well. Plaintiffs made, and the City rejected, a settlement demand in excess of $15 million. Damages are not yet measurable, but if the City is unsuccessful, damages will most likely be well in excess of $1 million, plus reasonable and necessary attorney's fees.

TAX MATTERS

Tax Exemption

In the opinion of Vinson & Elkins L.L.P. and Loeffler Tuggey Pauerstein Rosenthal LLP ("Co-Bond Counsel"), (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) certain "original issue discount" on the Bonds is excludable from gross income for federal income tax purposes under existing law as described more fully in "Tax Accounting Treatment for Original Issue Discount Bonds" and (iii) the Bonds are not "private activity Bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of Bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the City file an information report with the Internal Revenue Service. The City has covenanted in the Ordinance that it will comply with these requirements.

Co-Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the City, the City's Co-Financial Advisors and the Underwriters with respect to matters solely within the knowledge of the City, the City's Co-Financial Advisors and the Underwriters, respectively, which Co-Bond Counsel has not independently verified. If the City should fail to comply with the covenants in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which a corporation's "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Except as stated above and as stated below in "Tax Accounting Treatment of Original Issue Discount Bonds," Co-Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Co-Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Co-Bond Counsel's knowledge of facts as of the date thereof. Co-Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Co-Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Co-Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Co-Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on stat or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

The initial offering price to be paid for certain Bonds (the "Original Issue Discount Bonds") is less than the principal amount thereof. In the opinion of Co-Bond Counsel, under existing law and based upon the assumptions hereinafter stated:

(a) The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial offering price in the initial public offering of the Bonds; and

(b) Such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "Tax Exemption" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

The foregoing opinion is based on the assumptions that (a) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof. Neither the City nor Co-Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions. Certain of the representations of the Underwriter, upon which Co-Bond Counsel will rely in rendering the foregoing opinion, will be based upon records or facts the Underwriter had no reason to believe were not correct.

Under existing law, the original discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less, (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds could consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency (see "RATINGS" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding special obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Co-Bond Counsel to the effect that the Bonds are valid and legally binding special obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner, questioning the validity of the Bonds will also be furnished. Co-Bond Counsel has been engaged by, and only represents, the City. In their capacity as Co-Bond Counsel, Vinson & Elkins L.L.P., Houston, Texas, and Loeffler Tuggey Pauerstein Rosenthal LLP, San Antonio, Texas, have reviewed the information appearing in this Official Statement under the captions "THE BONDS" (except for the information under the captions "Security for the Bonds – Perfection of Security Interest," "Payment Record," and "Book-Entry-Only System" as to which no opinion is expressed); "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the caption "Compliance with Prior Undertakings" as to which no opinion is expressed), "APPENDIX B – Selected Provisions of the Ordinance," and "APPENDIX D - Form of Co-Bond Counsel's Opinion" to determine whether such information accurately and fairly describes and summarizes the information, material, and documents and legal issues referred to therein and is correct as to matters of law and such firms are of the opinion that the information relating to the Bonds, the Ordinance, and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and the legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. Co-Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy and completeness of this Official Statement. No person is entitled to rely upon Co-Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinions of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on issuance and delivery of the Bonds. The form of the legal opinion of Co-Bond Counsel is attached hereto as Appendix D. Certain legal matters will be passed upon for the Underwriters by their counsel, Winstead Sechrest & Minick P.C., San Antonio, Texas.

Neither the Attorney General of the State of Texas, Co-Bond Counsel, nor Underwriters' Co-Counsel has been engaged to investigate or verify, and accordingly neither will express any opinion concerning, the financial condition or capabilities of the City or the sufficiency of the security for, or the value or marketability of, the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix E for a specimen of MBIA's policy.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Company to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bonds the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "BOND INSURANCE." Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

MBIA Information

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of the Company's most recent Quarterly Report on form 10-Q, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of $9.9 billion (audited), total liabilities of $6.2 billion (audited), and total capital and surplus of $3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2004 MBIA had admitted assets of $10.3 billion (unaudited), total liabilities of $6.9 billion (unaudited), and total capital and surplus of $3.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

RATINGS

Moody's, S&P, and Fitch have rated the Bonds "Aaa," "AAA," and "AAA," respectively, based on the final delivery of the Policy on the date of initial delivery of the Bonds (see "BOND INSURANCE" herein). An explanation of the significance of such ratings may be obtained from Moody's, S&P, or Fitch. The ratings of the Bonds by Moody's, S&P, and Fitch reflect only the views of said companies at the time the ratings are given, and the City makes no representation as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's, S&P, and Fitch if, in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds..

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

Under Texas law, including, but not limited to, Chapter 103, Texas Local Government Code, as amended, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant, and must file each audit report with the City Clerk. The City's fiscal records and audit reports are available for public inspection during the regular business hours of the City Clerk. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, Chapter 552, Texas Government Code, as amended. Thereafter, any person may view these documents upon submission of a written request to the City Clerk, City of San Antonio, Texas, 100 Military Plaza, San Antonio, Texas, 78205, and obtain copies of the same upon paying the reasonable copying, handling, and delivery charges for providing this information.

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement indicated as Tables 1 through 3 and in Appendix C attached hereto. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and to any State Information Depository ("SID") that is designated by the State and approved by the staff of the United States Securities and Exchange Commission.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited information within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The audited financial information attached hereto and incorporated herein by reference is done so without the consent of the City's auditor.

The City's fiscal year ends September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the status of the Bonds; (vii) modifications to rights of holders of the Bonds; (viii) Bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes. Neither the Bonds nor the Ordinance makes any provision for credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of the Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State as a SID. The address of the Municipal Advisory Council is 600 West 8th Street, Austin, Texas 78701, or Post Office Box 2177, Austin, Texas 78768-2177 and its telephone number is (512) 476-6947. The Municipal Advisory Council of Texas has also received Securities and Exchange Commission approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.org ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information relating to the Bonds.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

This continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (i) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering, as well as such changed circumstances, and (ii) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the Bonds. The City may also repeal or amend the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The City has complied in all material respects with all of its previous continuing disclosure agreements in accordance with the Rule.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, including, but not limited to the information under the heading "THE BONDS – Security for the Bonds" and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherent subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions of future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CO-FINANCIAL ADVISORS

Coastal Securities and Estrada Hinojosa & Company, Inc. (the "Co-Financial Advisors") are employed by the City in connection with the issuance of the Bonds and, in such capacity, have assisted the City in the preparation of certain documents related thereto. The Co-Financial Advisors' fee for service rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

The Co-Financial Advisors have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources which are believed to be reliable, including financial records of the City and other entities which may be subject to interpretation. No guarantee is made by the Co-Financial Advisors as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Official Statement.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of $64,422,394.85, plus accrued interest. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed from time to time by the Underwriters.

The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officers of the City, acting in their official capacity, to the effect that to the best of their knowledge and belief: (i) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (ii) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (iii) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (iv) there has been no material adverse change in the financial condition of the City since the date of the last financial statements of the City appearing in the Official Statement.

AUTHORIZATION OF THE OFFICIAL STATEMENT

This Official Statement has been approved as to form and content and the use thereof in the offering of the Bonds was authorized, ratified, and approved by the City Council on the date of sale, and the Underwriters will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the City.

* * *

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Rule.

/s/ Ed Garza
Mayor, City of San Antonio, Texas

ATTEST:

/s/ Leticia M. Vacek
City Clerk, City of San Antonio, Texas

APPENDIX A

CITY OF SAN ANTONIO
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City of San Antonio, Texas (the "City" or "San Antonio") and of the metropolitan area in which the City is located. Although the information in this Appendix has been provided by sources believed to be reliable, no investigation has been made by the City to verify the accuracy or completeness of such information.

Population and Location

The Census 2000, prepared by the U.S. Census Bureau, found a City population of 1,144,646. The City's Department of Planning estimated the City's population at 1,282,800 for the calendar year ending December 31, 2004. The U.S. Census Bureau ranks the City as the second largest in the State of Texas and the eighth largest in the United States.

The City is the county seat of Bexar County, which has a population of 1,392,931 according to the Census 2000. The City's Department of Planning estimated Bexar County's population at 1,560,500 for the calendar year ending December 31, 2004. The City is located in south central Texas approximately 75 miles south of the state capital in Austin, 140 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo, respectively.

The following table provides, as of April 1 for the years shown, the population of the City, Bexar County, and the San Antonio Metropolitan Statistical Area ("MSA"), which includes Bexar County and Comal, Wilson, and Guadalupe Counties:

Year	City of San Antonio	Bexar County	San Antonio MSA
1920	161,399	202,096	238,639
1930	231,542	292,533	333,442
1940	253,854	338,176	376,093
1950	408,442	500,460	542,209
1960	587,718	687,151	736,066
1970	654,153	860,460	888,179
1980	786,023	988,971	1,088,881
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,592,383

Sources: U.S. Census Bureau; City of San Antonio, Department of Planning.

Area and Topography

The area of the City has increased through numerous annexations, and now contains approximately 511.78 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788 feet above mean sea level.

Annexation

Through annexation, the City has grown from its original size of 36 square miles to its current area, encompassing 448.41 square miles (full purpose annexations only) or 511.78 square miles (both full purpose and limited purpose annexations), and having a fiscal year 2005 total market valuation of $51.741 billion[1]. The City expects to continue to utilize the practice of annexation as a future growth and development management tool, as

[1] Based on Tax Year 2004 Actual Market Value of Taxable Property certified by Bexar Appraisal District as of July 25, 2004.

well as an opportunity to enhance the City's fiscal position. Planned annexations by the City are currently under consideration.

At its November 20, 2002 meeting, the City Council annexed, effective December 31, 2002, five areas for inclusion within the City for full purposes, adding 18.70 square miles of land to the City's total area. At that same meeting, the City Council also annexed, effective January 5, 2003 six areas for limited purposes. Effective August 1, 2004, City Council annexed an additional area for limited purposes south of the Medina River. The areas annexed for limited purposes account for a total of 63.37 square miles of land within the City's corporate limits. Limited purpose annexation areas, although included in the total calculation of the City corporate limits, are excluded in the calculation of property values. (See "Limited Purpose Annexation" below).

Limited Purpose Annexation

The City annexed for limited purposes, effective January 5, 2003, six areas south of San Antonio and an additional area south of the Medina River, effective August 1, 2004. Limited purpose annexation allows the City to extend regulatory authority for the limited purposes of applying its planning, zoning, health, and safety ordinances to specified areas. The City may not impose a property tax in such areas until the property is annexed for full purposes, which generally occurs within three years after limited purpose annexation.

As a requirement of Section 43.123, Texas Local Government Code, as amended, the City published a planning study and regulatory plan regarding the proposed limited purpose annexation areas. The planning study addresses projected levels of development in the next ten years with and without annexation of such areas, issues regarding (and the public benefits of) annexation, economic and environmental impact of annexation, and proposed zoning for the specified areas. The regulatory plan outlines development regulations and the respective dates of future, full purpose annexation.

Annexation Plan

In 1999, the Texas Legislature passed Chapter 1167, Acts of the 76th Legislature, Regular Session, 1999 (the "Annexation Act"), changing the manner in which Texas municipalities can annex land. Under the Annexation Act (such requirement now codified at Section 43.052, Texas Local Government Code), municipalities must prepare an annexation plan specifically identifying annexations that may occur beginning on the third anniversary of the date such plan was adopted.

The City Council, at its September 19, 2002 meeting, adopted a three-year annexation plan for the City. At its December 12, 2002 meeting, City Council amended the plan identifying 13 areas for full purpose annexation, as required by Section 43.052 of the Texas Local Government Code, seven of these areas are scheduled to be annexed effective December 31, 2005, and the six south side limited purpose annexation areas are scheduled to be annexed for full purposes on January 5, 2006. City Council approved an additional amendment to its annexation plan on July 22, 2004, to include the limited purpose annexation south of the Medina River, which is scheduled for full purpose annexation on July 31, 2007.

Form of Government and Administration

The City is a Home Rule Municipality that operates pursuant to the City of San Antonio City Charter (the "City Charter"), which was adopted in 1951 and became effective on January 1, 1952. The City Charter provides for a council-manager form of government, whereby subject only to the limitations imposed by the Texas Constitution and the City Charter, all powers of the City are vested in an elective Council (the "City Council") which enacts legislation, adopts budgets, and determines policies. The City Council is comprised of eleven (11) members, with ten members elected from single-member districts, and the Mayor elected at-large. Each member of the City Council serves two (2) year terms, and each member is limited to a maximum of two (2) full terms. The office of the Mayor is considered a separate office. The terms of all members of the City Council currently sitting in office expire on May 31, 2005.

The City Council also appoints a City Manager who executes the laws and administers the government of the City, and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council.

Since its adoption, the City Charter has been amended on five separate occasions, November 1974, January 1977, May 1991, May 1997, and November 2001. Significant amendments to the City Charter include the amendment passed in May 1991, which limited the service by the Mayor and members of the City Council members to two full terms, each of which is two years in duration. Two separate City Charter review committees sitting in the early and mid-1990's and charged with conducting a comprehensive review of the City Charter resulted in the May 1997 passage of five propositions, each containing numerous amendments to the City Charter in May 1997. The most recent amendments to the City Charter occurred in 2001 and included, among others, provisions creating the position of an independent City Internal Auditor and granting the City Manager the power to appoint and remove the City Attorney upon the City Council's advice and/or confirmation.

City Manager Selection

On September 10, 2004, through Ordinance No. 99703, City Council accepted the resignation of the City Manager, Terry M. Brechtel. Ms. Brechtel's resignation was effective October 1, 2004. J. Rolando Bono was appointed to serve as Interim City Manager through Ordinance No. 99821; and his terms and conditions of employment were adopted and approved by Ordinance No. 99850. Mr. Bono will continue to serve as Interim City Manager until such time as the City Council appoints a City Manager. The City Council has hired a professional firm to assist in a nationwide search for a new City Manager.

Services

The full range of services the City provides to its constituents includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services are provided include ad valorem, sales, and hotel/motel tax receipts, federal and state grants, user fees, bond proceeds, tax increment financing, and other sources.

In addition to the above described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport, parking, storm water, and environmental services.

Electric and gas services to the San Antonio area are provided by City Public Service ("CPS"), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system that serves the San Antonio area. CPS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City's fiscal year ending September 30, 2004 were $191,353,560.

Water, wastewater, recycled water, steam, and chilled water services are provided by the San Antonio Water System ("SAWS"), another City-owned and operated utility. In addition to these services, SAWS contracted with the City to provide certain storm water services thereto and it manages and develops water resources in and around the San Antonio region. SAWS is in its 13th year as a separate, consolidated entity that addresses the City's water-related issues in a coordinated and unified manner. SAWS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City's fiscal year ended September 30, 2004 were $6,900,308.

Economic Factors

The City supports a favorable business environment and economic diversification which is represented by various industries, including domestic and international trade, convention and tourism, medicine and health care, government employment, agribusiness, manufacturing, financial business, telecommunications, telemarketing, insurance, and mineral production. Support for these economic activities is demonstrated by the City's commitment to its on-going infrastructure improvements and development and its dedicated work force. Total nonagricultural employment in the San Antonio MSA for November 2004 was 738,600, which is 11,200 or 1.54% more jobs than the November 2003 total of 727,400. Service, trade, and government represent the largest employment sectors in the San Antonio MSA. Medical and bio-medical, tourism, and the military represent the largest industries in San

Antonio. The City serves as a major insurance center in the southwest United States and is the headquarters location for several insurance companies. According to the San Antonio Business Journal Book of Lists 2005, San Antonio's five largest private-sector employers ranked by number of employees are: USAA (United Service Automobile Association), Methodist Healthcare System, SBC Communications, Inc., Baptist Health System, and Six Flags Fiesta Texas; and San Antonio's five largest publicly traded companies, ranked by revenues, are SBC Communications, Inc., Valero Energy Corp., Clear Channel Communications, Inc., Tesoro Petroleum Corp., and Harte-Hanks Inc.

Healthcare & Bioscience Industry

The healthcare and bioscience industry remains the largest industry sector in the San Antonio economy. The industry is diversified, with related industries such as research, pharmaceuticals, and manufacturing contributing approximately the same economic impact as health services. According to the *San's Antonio's Healthcare and Bioscience Industry Economic Impact Study* commissioned by the Greater San Antonio Chamber of Commerce, the total economic impact from this industry sector totaled approximately $12.9 billion in 2003. The industry provided 103,156 jobs, or approximately 14% of the City's total employment. The healthcare and bioscience industry's annual payroll in 2003 approached $3.9 billion. The 2003 average annual wage of San Antonio workers was $32,564, compared to $37,747 for healthcare and bioscience employees. These 2003 economic impact figures represent growth of 8% over the previous year, or approximately $1 billion. In addition, employment in the industry grew by 34% from 1993 through 2003.

Health Care. The 900-acre South Texas Medical Center (the "Medical Center") has ten major hospitals and nearly 80 clinics, professional buildings, and health agencies with combined budgets of over $2.5 billion as of January 2004. As of January 2004, approximately 26,757 Medical Center employees provided care for over 3.64 million outpatients and approximately 101,871 inpatients. A survey based on 2002 data of 371,000 patients treated in the Medical Center with estimated billings of $573 million, indicated that 30% or 111,000 came from surrounding counties. Physical plant values, not adjusted for inflation, representing the original investments in physical facilities and equipment (less depreciation) represent approximately $1.7 billion, which is a $42 million increase in 2003 over the previous year. The Medical Center has about 300 acres of undeveloped land still available for expansion. Capital projects already in progress total $141 million, which represent a 26% increase in 2003 over the previous year. Capital projects planned for the years 2005 through 2009 will add an additional estimated $169 million to present physical plant and equipment values.

Central to the Medical Center is The University of Texas Health Science Center at San Antonio (the "UT Health Science Center") with its five professional schools awarding more than 50 degrees and certificates, including Doctor of Medicine, Doctor of Dental Surgery, and Doctor of Philosophy in nursing, allied sciences, and other fields. The UT Health Science Center oversees the new, federally-funded Regional Academic Health Center in the Rio Grande Valley with facilities in Harlingen, McAllen, Brownsville, and Edinburg. An extension campus is under construction in Laredo, Texas. The UT Health Science Center received the largest amount of research funding of any South Texas university or institution in fiscal year 2003, garnering $189 million.

There are numerous other medical facilities outside the boundaries of the Medical Center, including 25 short-term general hospitals, two children's psychiatric hospitals, and two state hospitals. There are three Department of Defense hospitals, one of which is located in the Medical Center (as hereinafter described).

Military Health Care. San Antonio has three major military hospitals, each of which has positively impacted the City for decades. Brooke Army Medical Center ("BAMC") conducts treatment and research in a new, 1.5 million square foot facility at Fort Sam Houston U.S. Army Base, providing health care to nearly 600,000 military personnel and their families. BAMC is a level one trauma center (the only one in the U.S. Army medical care system) and contains the world-renowned Institute of Surgical Research Burn Center. BAMC also conducts bone marrow transplants in addition to more than 600 ongoing research studies.

Wilford Hall Medical Center ("Wilford Hall") is the largest medical facility of the U.S. Air Force. In addition to providing health care to military personnel and their families, Wilford Hall is also a level one trauma center (the only one in the U.S. Air Force medical care system) that handles emergency medical care for approximately one-fourth of the City's emergency patients. Wilford Hall provides medical education for the majority of its physician and dental specialists and other health professionals, conducts clinical investigations, and offers bone marrow and organ transplantation.

Audie L. Murphy Memorial Veterans Hospital, located in the Medical Center, is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, the Audie L. Murphy Research Services (which is dedicated to medical investigations), and the new Frank Tejeda VA Outpatient Clinic (which serves veterans located throughout South Texas).

The two military medical care facilities and the Veterans Hospital partner in a variety of ways, including clinical research and the provision of medical care to military veterans. This partnership is unique and represents a valuable resource to San Antonio and the nation.

Bio-Medical Research and Development. Research and development are important areas that strengthen San Antonio's position as an innovator in the bio-medical field, with total research economic impact exceeding $1.005 billion annually.

The Texas Research Park (the "Park") is the site for the University of Texas Institute of Biotechnology/Department of Molecular Medicine, the Cancer Therapy, and Research Center's Institute for Drug Development, The Southwest Oncology Group, and dozens of new biotechnology-related companies, whose work involves various stages of the very complicated drug development process. The Park has over $100 million invested in its facilities and equipment and generates more than $200 million in economic activity for the City each year. The Park is owned and operated by the Texas Research Park Foundation, whose mission includes building a world-class center for life-science research and medical education and promoting economic development through job creation. SBC Communications, Inc. donated $1.8 million to the Park for a 7,000 square foot, state-of-the-art teleconferencing building that links all facilities at the Park to the UT Health Science Center and the University of Texas San Antonio ("UTSA").

The Southwest Foundation for Biomedical Research, which conducts fundamental and applied research in the medical sciences, is one of the largest independent, non-profit, biomedical research institutions in the United States, and is internationally renowned. The Southwest Foundation for Biomedical Research has a full time staff of 72 doctoral level employees, a technical staff of 115, and an administrative and supporting staff of 201 persons. Research departments include Departments of Genetics, Physiology and Medicine, Virology and Immunology, and Organic and Biological Chemistry. The Department of Laboratory Animal Medicine maintains the animal care facilities. The Foundation is also home to one of the few BSL-4 labs in the country, and its Genomics Computing is the world's largest computer cluster devoted to statistical genetic analysis.

The UT Health Science Center has been a major bioscience research engine since its inception, with strong research groups in cancer, cancer prevention, diabetes, drug development, geriatrics, growth factor and molecular genetics, heart disease, stroke prevention, and many other fields. One of its latest achievements is the establishment of the Children's Cancer Research Center, endowed with $200 million from the State of Texas's tobacco settlement. The UT Health Science Center, along with the Cancer Therapy and Research Center, forms the San Antonio Cancer Institute, a National Cancer Institute-designated Comprehensive Cancer Center.

UTSA houses the Cajal Neuroscience Research Center, which is funded by $11 million in ongoing grants and is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer's disease. UTSA is also the recipient of more than $35 million for its new School of Bioengineering.

A number of highly successful private corporations, such as Mission Pharmacal, DPT Laboratories, Ltd., and ILEX Oncology, Inc., operate their own research and development groups and act as guideposts for numerous biotech startups, bringing new dollars into the area's economy. A notable example of the results of these firms' research and development is ILEX Oncology, Inc., which has developed eight of the last 11 cancer drugs approved for general use by the Federal Drug Administration.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry, which ranks second in its local economic impact. A recent study by the Greater San Antonio Chamber of Commerce found that in 2002 the hospitality industry had an economic impact of nearly $7.2 billion. The estimated annual payroll for the industry in 2002 was $1.2 billion, and the industry employed over 80,000. In 2003, the City's overall performance for hotel occupancy increased by 0.3% and total room nights sold in the destination increased by 2.8%.

Tourism. During 2002, San Antonio attracted nearly 20 million visitors with direct spending across all industries in the City of $4.8 billion. The list of attractions in the San Antonio area includes, among many others, the Alamo, and other sites of historic significance, the River Walk, two major theme parks (SeaWorld of Texas and Six Flags Fiesta Texas), and the professional basketball team, the San Antonio Spurs. In 2002, San Antonio ranked ninth among U.S. destinations for overnight leisure travel, according to research commissioned by the San Antonio Convention and Visitors Bureau. Visitor information is updated on a biennial basis with the next release scheduled for June 2005.

Conventions. San Antonio is one of the top convention cities in the country, and the recent expansion of the Henry B. Gonzalez Convention Center has enabled the area to compete for more and bigger conventions. The City is proactive in attracting convention business through its management practices and marketing efforts. The following table shows both overall city performance as well as convention activity booked by the San Antonio Convention & Visitors Bureau for the years indicated:

Calendar Year	Hotel Occupancy (%)[1]	Room Nights Sold[1]	Convention Attendance[2]	Convention Room Nights [2]	Convention Delegate Expenditures ($ Millions) [2,3]
1995	68.2	5,255,310	400,751	744,954	328.1
1996	66.3	5,569,917	486,383	725,395	398.3
1997	64.5	5,747,771	417,492	670,039	341.9
1998	66.1	6,093,945	445,151	724,882	401.0
1999	65.2	6,219,742	406,539	678,014	366.2
2000	65.5	6,495,654	389,448	696,215	350.8
2001	63.1	6,361,879	419,970	712,189	378.3
2002	64.1	6,581,841	521,278	826,566	469.6
2003	64.7	6,871,139	424,951	709,081	382.8
2004	65.6	7,034,431	504,704	711,568	524.5

1 Source: Smith Travel Research, based on hotels in San Antonio.

2 Reflects only those conventions booked by the Convention and Visitors Bureau.

3 For the years of 1995 through 1997, the estimated dollar value is calculated in accordance with a 1993 Deloitte & Touche LLP study for the International Association of Convention and Visitor Bureaus ("IACVB") which reflected the average expenditure of $818.82 per convention and trade show delegate. Beginning in 1998, the estimated dollar value is calculated in accordance with the 1998 IACVB Foundation Convention Income Survey Report conducted by Deloitte & Touche LLP, which reflected the average expenditure of $900.89 per convention and trade show delegate. Calendar year 2004 is based on an average expenditure of $1,030.20 per convention and trade show delegate, according to a Veris Consulting, LLC study for the IACVB.

Military Installations

The military represents a principal component of the City's economy providing an impact of over $5 billion annually. Three major military installations are currently located in Bexar County, including Lackland Air Force Base ("Lackland AFB"), Fort Sam Houston U.S. Army Base ("Fort Sam"), and Randolph Air Force Base ("Randolph AFB"). In addition, the property of Brooks Air Force Base ("Brooks AFB"), a fourth major military installation, was transferred from the United States Air Force (the "Air Force") to the City-created Brooks Development Authority on July 22, 2002, as part of the Brooks City-Base Project ("Brooks City-Base"). As of September 2003, the total Department of Defense military employment associated with the three active military installations and Brooks City-Base approximates 80,500 military, civilian, and guard/reserve personnel with an annual aggregate payroll of over $3 billion.

Military Base Redevelopment. On July 13, 2001, Kelly Air Force Base ("Kelly AFB") officially closed and the land and facilities were transferred to the Greater Kelly Development Authority ("GKDA"), a City Council-created organization responsible for overseeing the redevelopment of the base into a business and industrial park.

The new business park, known as KellyUSA, is focused on becoming the Port of San Antonio by: (1) establishing international air cargo operations; (2) developing a Kelly rail port for direct international rail operations including inland port distribution with the Port of Corpus Christi; (3) expanding aviation maintenance, repair, and overhaul ("MRO") operations into a renowned international center of excellence for MRO. KellyUSA has facility assets of approximately $1 billion and includes multi-modal infrastructure, including an 11,400-foot runway for commercial air operations valued at $1.8 billion. To further the redevelopment goals, GKDA has completed over $105 million in new construction and facility upgrades at KellyUSA, including a new 123,000 square foot hangar for Boeing in 2001 and a new office building in 2000. As of September 2004, redevelopment efforts have resulted in the retention of 7,221 military jobs and the creation of about 5,140 new commercial jobs. GKDA has also executed leases totaling approximately 8.2 million square feet of the space with 63 tenants such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Dynamics, General Electric, and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for their continued use. In 2004, GKDA began "Phase II New Facility Development" at KellyUSA that encompasses $364 million in capital projects financed by City, State, federal and private sector funds. GKDA projects that Phase II will generate another 6,400 jobs and increase KellyUSA's economic impact on the community to $4.3 billion annually.

Brooks City-Base is a collaborative effort between the Air Force and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve Air Force mission effectiveness, assist the Air Force in reducing its support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park (the "Park"), a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. Brooks Technology & Business Park was officially established on July 22, 2002, with the transfer of the 1,310 acres of land and improvements comprising Brooks AFB to the City Council-established organization, Brooks Development Authority ("BDA"), with the Air Force becoming Brooks Technology & Business Park's anchor tenant and leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to Brooks Technology & Business Park and has been providing fire and police services thereto since October 2001. Base electric, gas, and water utilities have been transferred by the BDA to the City-owned utilities, CPS and SAWS, respectively. As of December 2004, the BDA is saving the Air Force over $5 million a year in support costs while the Air Force is occupying 95 percent of available space at Brooks City-Base. The BDA has also leased out another 82,000 square feet to commercial tenants. Development projects underway or planned at Brooks City-Base include a $24.5 million City/County Emergency Operations Center, $10 million in storm drainage improvements, the construction of two new facilities for lease to a local pharmaceutical manufacturer, and the potential construction of facilities for a School of Pharmacy. In addition, in November 2004, the BDA completed the sale of 62 acres at the northeast corner of the Park to a local developer and Wal-Mart for the construction of a 570,000 square foot commercial retail development. This sale resulted in net revenue to the BDA of about $10 million for reinvestment in the Park and will create approximately 500 new jobs in South San Antonio.

Fort Sam has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. ("FSHRP"), for the redevelopment of the former Brooke Army Medical Center ("BAMC") and two other buildings at Fort Sam. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, had been vacant for some time and were in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. In September 2003, the Army relocated Army South Headquarters from Puerto Rico to Fort Sam, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. The Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC, for renovation on these historic facilities which was completed summer 2004. The continued success of this unique public-private partnership at Fort Sam is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam currently available for redevelopment.

The City, in partnership with the Greater San Antonio Chamber of Commerce, community volunteers, Bexar County, and community stakeholders, has also formed a Military Missions Task Force (the "Task Force") to continue working with local military installations to improve their military value, strengthen partnerships with local institutions, and to help attract new missions and jobs to San Antonio. With another round of base closure and realignment scheduled for 2005, the community has been proactive in strengthening the value of its military installations through unique initiatives like the Brooks City-Base project and the Fort Sam leasing project discussed above. The Task Force will continue to facilitate the success of these projects and to develop new partnership initiatives with the San Antonio military bases.

Other Major Industries

Aerospace Industry. The aerospace industry's annual economic impact to the City is about $2.9 billion. This industry provides some 8,283 jobs, with employees earning total annual wages totaling over $320 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, San Antonio Aerospace – a division of Singapore Technologies, Southwest Airlines, American Airlines, Delta and Continental, FedEx, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, MRO, and general aviation.

San Antonio International Airport ("SAT") has added three new non-stop passenger routes in the past 12 months and currently has flights to 28 non-stop destinations, with seasonal charter service to Mexico available during the spring and summer. SAT is currently developing constructions plans for a new Terminal B and Parking Garage, with groundbreaking expected respectively in the spring and summer 2005. SAT is also in the process of an Environmental Impact Statement for implementation of proposed airfield capacity enhancement projects recommended in the Airport Master Plan. Stinson is at 100% occupancy rate and has a tenant waiting list for facilities. A Stinson Master Plan was approved by the City Council in October 2002, implementation of the Master Plan recommendations is currently in process pending the successful completion of an Environmental Assessment for certain airfield improvements.

At KellyUSA, the MRO business is strong as tenants such as Boeing and Lockheed continue to secure long-term government contracts. KellyUSA is also working to add air cargo activity, having completed an Air Cargo Study and Strategic Plan in June 2002. This study also provided SAT with an Air Cargo Strategic Plan that includes recommendations on expanding the existing integrator service primarily provided by UPS, FedEx, and Airborne Express. In fall 2001, the community established the innovative Alamo Area Aerospace Academy ("AAAA"), a two-year training and internship program for high school juniors and seniors to prepare these students for a career in the aerospace industry and to help fill a critical workforce requirement. After three years, AAAA has graduated 117 seniors from the program with 87 finding jobs with a local aerospace company.

Aerospace Research and Development. Brooks Air Force Base 311th Human Systems Wing's School of Aerospace Medicine, long active in research and development related to aviation and human systems, conducts research related to human effectiveness in aviation and is opening a new aircraft sustainability laboratory that will conduct research and development applicable to commercial aviation.

The Southwest Research Institute is one of the original and largest independent, nonprofit, applied engineering and physical sciences research and development organizations in the United States, serving industries and governments around the world in the engineering and physical sciences. Southwest Research Institute has contracts with the Federal Aviation Administration, General Electric, Pratt & Whitney, and other organizations to conduct research on many aspects of aviation, including testing synthetic jet fuel, developing software to assist with jet engine design, and testing turbine safety and materials stability. Southwest Research Institute occupies 1,200 acres and provides nearly two million square feet of laboratories, test facilities, workshops, and offices for more than 2,700 scientists, engineers, and support personnel.

Information Technology Industry. The Information Technology ("IT") industry is one of the fastest-growing sectors of the local economy. With an overall economic impact of approximately $3.4 billion, the IT industry represents about 7% of the San Antonio economy. Its economic impact has tripled since 1990 and doubled since 1995. The IT industry includes two major types of activity: (i) the production and sale of various types of computer products and (ii) computer/data processing services. Due to the presence of many industry-leading information security companies and organizations, San Antonio is especially strong in this segment of the IT industry. The annual payroll among the IT industry's estimated 11,500 employees totals approximately $500 million. Not captured in this employment number is an additional 4,600 employees of the Air Intelligence Agency located in San Antonio, which is the premier IT agency for the Air Force and the Department of Defense. The success of the AAAA prompted the community to establish a similar academy for IT, which began in August 2002 with an enrollment of 81 high school juniors and increasing to 104 juniors and seniors in the 2003/2004 class. The City is focused on leveraging its IT industry assets to serve the nation in developing and implementing the initiatives of the federal Homeland Security Act.

Manufacturing Industry. Toyota Motor Manufacturing broke ground on their sixth North American manufacturing facility on October 17, 2003. Toyota will invest over $500 million in this facility, located on 2,000 acres in South San Antonio. Production is scheduled to begin in 2006, and at full production, the facility will produce 150,000 full-size Tundra trucks. With this project, Toyota will create 2,100 construction jobs, 2,000 direct jobs, and 5,300 spin-off jobs. At full operations, the payroll for the 2,000 workers at the facility will total between $90 and $100 million. It is estimated that the rate of return on the City of San Antonio's investment is 18.3%. In addition, on December 16, 2004, Toyota announced the creation of a Supplier Park at the Toyota manufacturing site. This Supplier Park will attract 18 supplier companies and create 1,500 manufacturing and assembly jobs with a capital investment of about $150 million.

Sources: The Greater San Antonio Chamber of Commerce; San Antonio Medical Foundation; City of San Antonio, Department of Economic Development and Convention and Visitors Bureau.

Growth Indices

San Antonio Electric and Gas Customers

For the Month of December	Electric Customers	Gas Customers
1995	516,679	297,654
1996	528,302	299,140
1997	538,729	301,044
1998	548,468	301,842
1999	560,628	302,991
2000	575,461	305,181
2001	589,426	305,702
2002	594,945	306,503
2003	602,185	306,591
2004	617,261	308,681

Source: CPS.

San Antonio Water System Average Customers per Fiscal Year

Fiscal Year Ended May 31 [1, 2]	Water Customers [3]
1995	266,308
1996	269,405
1997	273,276
1998	270,897
1999	279,210
2000	285,887
2001	292,136
2002	298,215
2003	303,917
2004	311,554

1 On April 3, 2001, the SAWS Board of Trustees approved the changing of SAWS' fiscal year from a year-end of May 31 to December 31.
2 Beginning in year 2001, for the 12 months ending December 31.
3 Excluding SAWS irrigation customers.
Source: SAWS.

Construction Activity

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated:

Calendar	Residential Single Family		Residential Multi-Family[1]		Other[2]	
Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
1995	3,925	$ 237,796,446	353	$ 63,396,919	11,588	$ 420,001,031
1996	4,306	261,540,367	171	64,282,630	9,055	578,225,607
1997	4,240	257,052,585	155	42,859,473	8,170	717,988,779
1998	5,630	363,747,169	85	23,194,475	8,193	892,766,648
1999	5,771	398,432,375	404	157,702,704	9,870	911,543,958
2000	5,494	383,084,509	201	81,682,787	10,781	957,808,435
2001	6,132	426,766,091	449	142,506,920	12,732	1,217,217,803
2002	6,347	435,090,131	246	101,680,895	14,326	833,144,271
2003	6,771	521,090,684	141	2,738,551	13,813	1,041,363,980
2004	7,434	825,787,434	206	7,044,283	14,695	1,389,950,935

1 Includes two-family duplex projects.
2 Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.
Source: City of San Antonio, Department of Development Services.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

	Calendar Year					
	2004	2003	2002	2001	2000	1999
Amarillo	$ 48,155,445	$ 44,581,868	$ 44,201,183	$ 43,357,043	$ 42,474,995	$ 40,781,524
Arlington	49,344,578	46,483,314	42,493,256	65,948,096	65,264,427	60,092,585
Austin	112,515,478	105,044,871	110,208,923	117,393,240	117,818,293	104,915,700
Dallas	192,972,586	184,263,151	192,542,321	210,130,838	215,412,071	198,740,061
El Paso	51,461,838	48,949,656	47,465,776	46,876,210	45,970,014	43,603,400
Fort Worth	76,202,528	72,772,964	72,632,487	72,975,421	71,543,992	68,142,426
Houston	355,616,488	325,284,697	334,122,179	337,540,694	321,095,967	308,508,700
Irving	37,719,779	36,584,559	38,810,594	43,188,105	44,773,277	42,773,277
Plano	49,453,998	46,876,867	45,309,249	47,327,003	47,325,948	40,483,049
SAN ANTONIO	157,284,972	152,360,840	153,207,656	151,422,401	133,360,785	126,060,252

Source: State of Texas, Comptroller's Office.

Education

There are 15 independent school districts within Bexar County with a combined enrollment of 269,304 for the fall 2004, encompassing in the aggregate 41 high schools, 72 middle/junior high schools, and 247 elementary schools; and there are an additional 24 open enrollment charter school districts with a total of 48 schools at all grade levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. In addition, Bexar County has 93 accredited private and parochial schools at all education levels.

In San Antonio, the six largest universities, which include a medical school, a dental school, and a law school, and four public community colleges, had a combined enrollment of 93,721 for the fall 2004.

Source: Texas Education Agency.

Employment Statistics

The following table shows current employment estimates by industry in the San Antonio MSA for the period of November 2004, as compared to the prior periods of October 2004 and November 2003.

Employment by Industry

San Antonio MSA[1]	November 2004	October 2004	November 2003
Natural Resources and Mining	2,300	2,300	2,200
Construction	41,400	41,600	39,600
Manufacturing	44,100	43,900	44,600
Trade, Transportation, and Utilities	133,400	131,000	132,600
Information	23,800	23,600	23,800
Financial Activities	60,800	60,700	59,500
Professional and Business Services	89,200	89,400	86,300
Educational and Health Services	100,000	100,000	97,600
Leisure and Hospitality	78,100	79,400	77,400
Other Services	27,900	27,500	26,900
Government	137,600	137,000	136,900
Total Nonagricultural	738,600	736,400	727,400

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio MSA, Texas, and the United States for the period of November 2004, as compared to the prior periods of October 2004 and November 2003.

Unemployment Information *(all estimates are in thousands)*

San Antonio MSA [1]	November 2004	October 2004	November 2003
Civilian Labor Force	843.6	847.5	831.5
Number of Employed	804.5	809.2	787.0
Number of Unemployed	39.1	38.3	44.5
Unemployment Rate %	4.6	4.5	5.4
Texas (Actual) [1]	**November 2004**	**October 2004**	**November 2003**
Civilian Labor Force	11,037.1	11,020.5	10,970.8
Number of Employed	10,438.8	10,438.7	10,272.1
Number of Unemployed	598.3	581.8	698.7
Unemployment Rate %	5.4	5.3	6.4
United States (Actual) [2]	**November 2004**	**October 2004**	**November 2003**
Civilian Labor Force	148,246.0	147,978.0	146,969.0
Number of Employed	140,581.0	140,447.0	138,700.0
Number of Unemployed	7,665.0	7,531.0	8,269.0
Unemployment Rate %	5.2	5.1	5.6

[1] *Source: Labor Market Information Department, Texas Workforce Commission (model-based methodology).*
[2] *Source: Bureau of Labor Statistics, U.S. Department of Labor (Current Population Survey).*

Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties)[1]

Firm	Product/Service	Firm	Product/Service
Construction:			
Bexar Electric Company	Electrical Contractor	Urban Concrete Contractors	Exterior Concrete, Stucco
CCC Group, Inc.	Industrial Contractor	H.B. Zachry Company	General Contractor
Design Electric	Electrical Contractor		
Finance, Ins., Real Estate:			
American Funds Group	Mutual Funds & Investments	PacifiCare	Health Insurance
Argonaut	Insurance	Randolph-Brooks Federal Credit Union	Federal Credit Union
Bank of America	Banking/Financial	San Antonio Federal Credit Union	Federal Credit Union
Citigroup	Banking/Financial/Insurance	Security Service Federal Credit Union	Federal Credit Union
Frost National Bank	Banking/Financial	USAA	Insurance/Financial Services
The Hartford	Insurance	Washington Mutual Bank	Financial Services
Humana	Health Insurance	Wells Fargo	Financial Services
The Lynd Company	Insurance	World Savings	Savings Deposits And Loans
JP Morgan Chase	Banking/Financial		
Government:			
Bexar County	County Government	San Antonio Fire Department	Fire Department
Brooks City-Base	Military Installation & Ind. Park	San Antonio Housing Authority	Public Housing Assistance
City of San Antonio	Municipal Government	San Antonio Police Department	Police Department
Fort Sam Houston	Military Installation	Texas Dept. of Transportation	Road Construction/Maintenance
Lackland AFB/37th Training Wing	Military Installation	VIA Metropolitan Transit	Urban Public Transportation
Randolph Air Force Base	Military Installation		
Manufacturing:			
Alamo Concrete Products	Ready-Mix Concrete	Martin Marietta Materials SW, Inc.	Limestone, Asphalt & Concrete
Cardell Cabinetry	Cabinetry	Miller Curtain Company	Curtains & Draperies
Clarke American	Check Printing	Motorola	Industrial Electronics
DPT Laboratories, Inc.	Pharmaceuticals & Cosmetics	S.M.I. Texas	Steel Mfg. & Fabrication
Friedrich Air Conditioning Co.	Air Conditioning Systems	San Antonio Express-News	Newspaper Publisher
Frito-Lay, Inc.	Snack Foods	San Antonio Shoe, Inc. (SAS)	Men’s and Ladies’ Shoes
Kinetic Concepts, Inc.	Specialty Medical Products	Scooter Store, Inc.	Medical & Hospital Equipment
L & H Packing Company	Meat Processing	Sony Semiconductor San Antonio	Semiconductors
Lancer Corporation	Beverage Dispensing Equipment	Vulcan Materials	Paving Materials & Cement Prod.
Medical:			
Advanced Living Technologies	Skilled Nursing Care Facilities	Methodist Healthcare System	Hospital & Health Care
Allied Home Health Nursing Svcs.	Home Health Care	Methodist Specialty &Transplant Hosp.	Hospital & Health Care
Baptist Health System	Hospital & Health Education	Methodist Metropolitan Hospital	Hospital & Health Care
University Health System	Health Care And Trauma Services	Morningside Ministries, Inc.	Residential Care/Health Care
Brooke Army Medical Center	Military Health Care	Outreach Health Services	Home Health Care
Center for Health Care Services	Mental Health Case Management	San Antonio State Hospital	Mental Health Care Facility
Christus Santa Rosa Health Care	Hospital & Health Care	San Antonio State School	Mental Retardation Care Facility
Girling Health Care, Inc.	Home Health Care	South Texas Veterans Health Care Sys.	Hospital & Health Care
Guadalupe Valley Hospital	Hospital Services	Southwest General Hospital	Hospital & Health Care
Interim Healthcare San Antonio	Nurses Registry	University Health System	Hospital & Health Care
McKenna Memorial Hospital	Hospital & Health Care	University Physicians Group	Primary & Specialty Health Care
Medical Team, Inc.	Home Health Care	University Health Science Center at S.A.	Professional Health Education
Methodist Children’s Hospital	Children’s Hospital & Health Care	VNA and Hospice of South Texas	Health Care & Hospice Care
Retail:			
Aaron Rents and Sells Furniture	Office & Residential Furniture	H.E. Butt (H.E.B.) Grocery Company	Supermarkets/Gourmet Stores
Ancira Enterprises	Auto Dealerships	Holt Company of Texas	Construction Equipment
Dillard’s Department Stores	Department Stores	QVC San Antonio, Inc.	Electronic Customer Service Ctr.
Eckerd’s Drugs of Texas, Inc.	Drug Stores	R& L Foods, Inc.	Taco Bell, Pizza Hut, & KFC
Eye Care Centers of America, Inc.	Eyewear	Sun Harvest Farms, Inc.	Natural Foods Grocery Stores
Foley’s Department Stores	Department Stores	Tanseco Inc./Div. of Radio Shack	Electronics
Gunn Automotive Group	Auto Dealerships	Target Stores	Discount Stores

[1] *January 2004, The Greater San Antonio Chamber of Commerce Largest Employer’s Directory.*

(Table continues on next page.)

Employers with 500 or More Employees in the San Antonio Metropolitan Area (Includes Bexar, Comal, Guadalupe, and Wilson Counties) (continued)[1]

Firm	Product/Service	Firm	Product/Service
Services:			
Administaff, Inc.	Professional Employer Org.	Parent/Child Inc.	Early Childhood Dev./Childcare
Advanced Temporaries, Inc.	Temporary Staffing	Peakload Temporary Services	Personnel Staffing
Advantage Rent-A-Car	Vehicle Rental	Pioneer Drilling Company	Oil & Gas Drilling
Air Force Village Foundation	Military Retirement Facility	Regal Cinemas	Movie Theaters
Alamo Community College District	Community College District	RK Group, Inc.	Catering
Alamo Heights School District	Public School District	San Antonio College	Community College
Allen Tharp & Associates	Food Service Consultant	San Antonio School District	Public School District
American Building Maintenance	Contract Janitorial & Maintenance	San Antonio Spurs LLC	Professional Basketball Team
Bill Miller Bar-B-Q Enterprises, Inc.	Restaurants & Catering	Schertz-Cibolo-Universal City S.D.	Public School District
Boeing Aerospace Support Center	Aircraft Maint. & Modification	Sears Teleservice Center	Customer Service Consultants
Cadbeck Staffing	Professional Employer Org.	SeaWorld of Texas, Inc.	Marine Life Entertainment
Calling Solutions, Inc.	Integrated Communications	Securitas Security Services USA, Inc.	Security Officer Services
Comal School District	Public School District	Seguin School District	Public School District
East Central School District	Public School District	Six Flags Fiesta Texas	Entertainment Theme Park
Edgewood School District	Public School District	Somerset School District	Public School District
Enterprise Rent-A-Car	Vehicle Rental	South San Antonio School District	Public School District
Floresville School District	Public School District	Southside School District	Public School District
Frontier Enterprises	Restaurant Headquarters	Southwest School District	Public School District
Goodwill Industries of San Antonio	Vocational Services	Southwest Research Institute	Research & Development
Harcourt Assessment, Inc.	Test Publisher	St. Mary's University	Private University
Harlandale School District	Public School District	St. Phillip's College	Community College
Hospital Klean of Texas, Inc.	Hospital Housekeeping	Staff Professionals Inc.	Personnel Staffing
Hyatt Hill Country Resort	Hotel Resort	Standard Aero US	Aircraft Engine Repair
Industry One Staffing	Personnel Staffing	Taco Cabana, Inc.	Restaurants
Judson School District	Public School District	Talent Tree, Inc.	Personnel Staffing
Little Caesar's of San Antonio, Inc.	Pizza Take Out Restaurants	Texas Department of Human Services	State Social Services
Lockheed Martin Kelly Aviation	Aviation Consultants	Treco Services, Inc.	Janitorial Contract Services
Luby's Cafeterias, Inc.	Cafeterias	Trinity University	Private University
Marriott Rivercenter Hotel	Hotel	University of Texas at San Antonio	Public University
McDonald's-Haljohn, Inc.	Fast Food Restaurants	University of The Incarnate Word	Private University
Mi Tierra Restaurant & Bakery	Restaurant & Bakery	VIP Temporaries	Personnel Staffing
MTC, Inc.	Restaurants	Waste Management, Inc.	Solid Waste Collection/Disposal
New Braunfels School District	Public School District	Waterpark Management, Inc.	Resort & Waterpark
North East School District	Public School District	Wendy's of San Antonio Inc.	Fast Food Restaurants
Northside School District	Public School District	Westaff	Personnel Staffing
Our Lady of the Lake University	Private University	YMCA of Greater San Antonio	Health & Fitness/Youth Centers
Transportation, Comm., Utilities:			
AT&T	Telecommunications	Southwest Airlines	Air Service & Transportation
City Public Service	Electric & Natural Gas Utility	Time Warner Cable	Cable TV & Internet Service
Clear Channel Communications	TV & Radio Stations, Advertising	Trans Met Inc.	Freight Transpiration
Qwest Communications	Telecommunications	U.S. Postal Service	Postal Services
San Antonio Water System	Water Utility	United Parcel Service	Parcel Delivery
SBC Communications Inc.	Telecommunications	Valero Energy Corporation	Crude Oil Refinery
SBC Southwestern Bell	Telecommunications	WorldCom	Telecommunications
Wholesale:			
Advantage Sales & Marketing	Packaged Goods/Food Broker	SYGMA Network, Inc.	Distributor
CARQUEST Auto Parts (Straus-Frank Co.)	Automotive Replacement Parts	Tyson Foods, Inc.	Food Service
Color Spot Nurseries/ Southwest Division	Nurseries		

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San Antonio Electric and Gas Systems

History and Management

The City acquired its electric and gas utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The bond ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, Junior Lien Obligations and Commercial Paper Notes establish management requirements and provide that the complete management and control of the City's electric and gas systems (the "EG Systems") is vested in a Board of Trustees consisting of five citizens of the United States of America permanently residing in Bexar County, Texas, known as the "City Public Service Board of Trustees, San Antonio, Texas" (referred to herein as the "CPS Board or "CPS"). The Mayor of the City is a voting member of the Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the CPS Board and its conduct of the management of the EG Systems.

Vacancies in membership on the CPS Board are filled by majority vote of the remaining members. New CPS Board appointees must be approved by a majority vote of the City Council. A vacancy, in certain cases, may be filled by the City Council. The members of the CPS Board are eligible for re-election at the expiration of their first five-year term of office to one additional term only. In 1997, the City Council ordained that CPS Board membership should be representative of four geographic quadrants established by the City Council. New CPS Board members considered for approval by the City Council will be those whose residence is in a quadrant that provides such geographic representation.

The CPS Board is vested with all of the powers of the City with respect to the management and operation of the EG Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the bond ordinances, except regarding rates, condemnation proceedings, and issuances of bonds, notes, or commercial paper. The CPS Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements, and additions to the EG Systems, and to adopt rules for the orderly handling of CPS' affairs. It is empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond covering losses in the amount of not less than $100,000.

The management provisions of the bond ordinances also grant the City Council authority to review CPS Board action with respect to research, development, and planning.

In 1997, CPS established a 15 member Citizens Advisory Committee ("CAC") to enhance its relationship with the community and to address the City Council's goals regarding broader community involvement. The CAC meets monthly and the primary goal of the CAC is to provide recommendations from the community on the operations of CPS for use by the CPS Board and CPS staff. Representing the various sectors of the CPS service area, the CAC encompasses a broad range of customer groups in order to identify their concerns and articulate their issues.

Service Area

The CPS electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson, and Kendall. Certification of this CPS electric service area has been approved by the Public Utility Commission of Texas (the "PUCT").

CPS is currently the exclusive provider of electric service within the service area, including the provision of electric service to some Federal military installations located within the service area that own their own distribution facilities. As discussed below under "Electric Utility Restructuring in Texas; Senate Bill 7", until and unless the City Council and the CPS Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS has the sole right to serve as the retail electric energy provider in its service area. On April 26, 2001, the City Council passed a resolution stating that the City did not intend at that time to opt-in to the deregulated electric market. The City Council has taken no additional action relating to this decision. Senate Bill 7 ("SB 7"), adopted by the Texas Legislature in 1999, provides that "opt-in" decisions are to be made by the governing body or body vested with the power to manage and operate a municipal utility such as CPS. Given the relationship of the CPS Board and the City Council, any decision to opt-in to competition would be based upon the adoption of resolutions of both the CPS Board and the City Council. If the City and CPS choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS service area and CPS would be authorized to offer retail electric energy in any other areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"). ERCOT is a synchronous interconnected electric system that operates wholly within Texas. (See "Electric Utility Restructuring In Texas; Senate Bill 7.")

In addition to the area served at retail rates, CPS sells electricity at wholesale prices to the Floresville Electric Light & Power System, the City of Hondo, the City of Castroville, and the City of Brady. Renewal contracts have been entered into with the first three long-term wholesale customers in recent years. CPS became the wholesale electric provider of the City of Brady under a three-year contract commencing December 2002. CPS believes that it will have additional opportunities to enter into long-term wholesale electric power agreements. The requirements under the existing and any new wholesale agreements would be firm energy obligations of CPS.

The CPS gas system serves the City and its environs, although there is no certificated CPS gas service area. In Texas, no legislative provision or regulatory procedure exists for certification of gas service areas and CPS competes against other entities on the periphery of its service area.

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of electric "public utilities" is vested in the PUCT. Since the deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over the investor-owned utility companies primarily encompasses only the transmission and distribution function. PURA generally excludes from its coverage municipally-owned utilities ("Municipal Utilities"), such as CPS, but the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility like the EG Systems has exclusive jurisdiction to set rates applicable to all services provided by the municipally-owned electric utility, with the exception of wholesale transmission rates. Unless and until the City Council and CPS Board choose to opt-in to retail competition, CPS retail service electric rates are subject to appellate but not original rate regulatory jurisdiction by the PUCT in areas that CPS serves outside the City limits. To date, no appeal of CPS electric rates has ever been filed. CPS is not subject to the annual gross receipts fee payable by public utilities. (See "Electric Utility Restructuring in Texas; Senate Bill 7" herein.)

The Texas Railroad Commission ("TRC") has significant original jurisdiction over the rates, services, and operations of all gas utilities. Municipal Utilities such as CPS are generally excluded from regulation by the TRC. CPS retail gas service rates are subject to appellate but not original rate regulatory jurisdiction by the TRC in areas that CPS serves outside the City limits. To date, no appeal of CPS retail gas rates has ever been filed. In the absence of a contract for service, the TRC also has jurisdiction to establish gas transportation rates for service to State agencies by a Municipal Utility as well as rates for gas sale and for transport of State gas for school districts.

The City has covenanted and is obligated under the bond ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all Maintenance and Operating Expenses of the EG Systems and to pay the debt service requirements on all revenue debt of the EG Systems. Rate changes over the past 14 years have consisted of a 4.0% combined electric and gas base rate increase effective January 31, 1991; a new Large Volume Gas rate effective July 31, 1992, which was offered to Large Gas Customers whose monthly gas usage exceeded 550 MCF per month and enabled them to reduce bills by approximately 8.8%; a Super Large Power ("SLP") electric rate effective January 4, 1994, which reduced the cost of electricity to customers having loads greater than 5,000 KW per month and annual load factors greater than 41% by approximately $0.0049 per kWh, a 10.2% reduction on the basic rate; and a 3.5% electric base rate adjustment approved by City Council on September 30, 2004, and made effective on the first day of the billing period in which the closing for CPS' purchase of an additional interest in the South Texas Project nuclear power plant occurs. The latter rate adjustment is intended to offset the additional costs associated with the purchase, which is expected to be completed during the first half of 2005. CPS projects that the net effect of the rate adjustment and fuel savings from additional nuclear-fueled generation will be lower bills for CPS electric customers (See "Electric System – Generating System" herein). CPS also offers a monthly contract for renewable energy service (currently this is wind generated electricity) under Rider E15, which became effective September 30, 2002. A rider to the SLP rate, the Economic Incentive Rider E16, became effective March 10, 2003, and offers discounts off the SLP demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended up to an additional three years. Customers must also meet City employment targets and targets for purchases of goods or services from local businesses in order to qualify for the Economic Incentive Rider.

Each of CPS' retail and wholesale rates contains a fuel adjustment clause, which provides for current recovery of fuel costs. The adjustment is set at the beginning of each month.

Transmission Access and Rate Regulation

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), Municipal Utilities, including CPS, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers, and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method. In general, the postage stamp method results in transmission payments to other transmission owners by a compact urban utility like CPS that exceed its receipts from other utilities for their use of its own transmission facilities. CPS' wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing CPS' input to the calculation of the statewide postage stamp pricing method. The PUCT's rule also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. In 2003, the Texas Legislature passed HB 2548, which amended Section 39.203(e) of the PURA. This new law authorizes the PUCT to require transmission owners such as CPS to construct and/or enlarge transmission facilities in order to ensure reliability or to mitigate transmission system constraints within ERCOT.

Electric Utility Restructuring in Texas; Senate Bill 7. During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition that began in 2002. SB 7 continues electric transmission wholesale open access and fundamentally redefines and restructures the Texas electric industry. The following discussion applies primarily to ERCOT, the interconnected portion of the Texas electric grid in which CPS is located.

SB 7 includes provisions that apply directly to Municipal Utilities, such as the CPS electric system, as well as other provisions that govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy supplier, as well as the retail customers of those Municipal Utilities and Electric Co-ops that elect, on or after that date, to participate in retail electric competition. Provisions of SB 7 that apply to the CPS electric system, as well as provisions that apply only to IOUs and Electric Co-ops are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the electric system could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000 and to unbundle their generation, transmission/distribution, and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies, and possibly operating divisions, that may be owned by a common holding company, but which must operate largely independent of each other. The services offered by such separate entities must be available to other parties on a non-discriminatory basis. Municipal Utilities and Electric Co-ops which opt-in to competition are not required to unbundle their electric system components.

Generation assets of IOUs are owned by "Power Generation Companies", which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of transmission and/or distribution facilities are "Transmission and Distribution Utilities" and are fully regulated by the PUCT. Retail sales activities are performed by "Retail Electric Providers" ("REPs") which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, or other parties and may resell that electricity to retail customers at any location in Texas (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). Transmission and Distribution Utilities and Municipal Utilities and Electric Co-ops that have chosen to participate in competition are obligated to deliver the electricity to retail customers, and all of these entities are required to transport power to wholesale buyers. The PUCT is required to approve the construction of new Transmission and Distribution Utilities' transmission facilities, and may order the construction of new facilities to relieve transmission congestion. Transmission and Distribution Utilities are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than the PUCT. Each type of unbundled company of the formerly bundled IOUs is prohibited from providing services that are provided by the other types of unbundled companies.

Environmental Restrictions of Senate Bill 7. SB 7 contains specified emissions reduction requirements for certain older electric generating units which would otherwise be exempt from the Texas Commission on Environmental Quality ("TCEQ", formerly the Texas Natural Resource Conservation Commission) permitting program by virtue of "grandfathered" status. Under SB 7, annual emissions of nitrogen oxides ("NO_x") from such units are to be reduced by 50% from 1997 levels, beginning May 1, 2003 and reported on a yearly basis. The requirements may be met through an emission allowances trading program that has been established by the TCEQ on a regional basis. CPS applied for State permits from the TCEQ, as required for five CPS generating stations, comprising 12 gas-fired units, and the permits are now final. The NO_x reductions required for SB 7 have been met for the first compliance year and NO_x emissions have been reduced by over 50% system-wide from baseline levels. CPS may require future additional expenditures for emission control technology.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation called Chapter 117 regulations is directed at all units, including CPS' coal plants. These regulations require a 50% reduction in NO_x emissions beginning May 1, 2005, and annual reporting. In addition, as a result of JK Spruce Plant Unit 2 ("JKS 2") air permitting process, CPS has committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Lake Site once the JKS 2 unit comes on line. It is possible that over the upcoming years the EPA, the State of Texas, and local air quality districts may issue even more stringent regulations governing emissions from many types of power plants. Changes to environmental emission controls may have the greatest effect on coal plants. For example, mercury emission limits have been proposed by EPA which may require new controls at the coal plants in the near future. In addition, new rules were published by EPA affecting CPS' newer simple cycle combustion turbines, with regard to formaldehyde, and those turbines were tested for that pollutant as part of the compliance testing. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. While it is too early to determine the extent of any such changes, such changes could have a material impact on the cost of power generated at affected electric generating units.

Response to Competition

Strategic Planning Initiatives. CPS has a comprehensive corporate strategic plan that is designed to make CPS more efficient and competitive, while delivering value to customers and the City. Major parts of the plan include restructuring of rates, formulating a wholesale and retail marketing plan, reorganizing CPS along functional lines, and maintaining a debt and asset management program, as further discussed below. These efforts will also have the ongoing support of the CPS Governmental Affairs office, located in Austin, Texas, whose primary role is to review proposed Federal and State legislative actions affecting the electric industry and to represent CPS' interests in these areas.

Debt and Asset Management Program. CPS has developed a debt and asset management program (the "Debt Management Program") for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets, and enhancing financial flexibility in the present and future. An important part of the Debt Management Program is debt restructuring through the increased use of variable rate debt and interest rate swaps where feasible. It is anticipated, however, that the net variable rate exposure of CPS will not exceed approximately 20% of its total outstanding debt. The program also focuses on the use of unencumbered cash and available cash flow to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives, and increase net cash flow.

Acquisition of Military Base Facilities. On January 14, 2000, CPS purchased the electric and gas systems of the former Kelly Air Force Base ("Kelly"). These facilities include both the area privatized and the portion of Kelly that remains under Air Force control, which is now a part of Lackland Air Force Base ("Lackland"). CPS is the full service electric and gas provider for the Kelly USA Business Park. CPS provides a variety of electric and gas services for Lackland under a General Services Administration contract.

On July 22, 2002, the Brooks City Base Property was conveyed to the City. On October 1, 2002, CPS took ownership of the electric and gas infrastructures. Installation of all electric and gas metering was completed as of November 15, 2002. CPS is working on addressing all health and safety code issues, and this process is approximately 99% completed. CPS is the full service provider for both the electric and gas systems.

On September 30, 2003, CPS acquired the electric utility system at the Camp Bullis ("CB") security training force installation. The CB electric system is primarily an overhead system, which consists of approximately 10 miles of three-phase equivalent distribution lines with a mixture of wood and concrete poles. CPS crews have completed the new electric meter installation and have begun the process of evaluating the overhead distribution system to establish a long-term plan to bring the system to CPS' standards. As part of the transfer, CB became a full-service CPS customer for the next 50 years.

On December 1, 2003, CPS acquired the electric utility infrastructure at Fort Sam Houston, a U.S. Army base ("FSH") and became owner for the electric system at this installation. The FSH electric distribution system is primarily an overhead system and consists of approximately 70 miles of three-phase equivalent distribution lines with a mixture of wood and concrete poles. Over the next several months, CPS crews will have completed 99% of the installation of new electric meters and have begun the process of evaluating the overhead distribution to establish a long-term plan to bring the system to CPS' standards. As part of the transfer, FSH became a full-service CPS customer for the next 50 years. CPS is already the owner and full service provider for the gas system at FSH.

CPS provides a variety of electric and gas services for Lackland under a General Services Administration contract. In June 2003, Lackland personnel met with CPS for a preliminary discussion regarding a sole source acquisition for gas and electric utility systems. The Air Force ("AF") and CPS had several more privatization discussion meetings between July and December 2003. In January 2005, CPS submitted an unsolicited proposal for the electric utility infrastructure at the Lackland Annex at Camp Bullis. The proposal is currently under review by AF personnel. The AF has a target date of September 30, 2005 to review the feasibility of privatizing the utilities.

After CPS received unsuccessful bidder notification on February 24, 2003, from the Defense Energy Support Center regarding the Texas Regional Demonstration Project ("TRD"), Randolph Air Force Base ("Randolph") has not contacted CPS regarding any privatization efforts. CPS remains open to any future requests by Randolph to privatize their utility systems.

Electric System

Generating System. CPS operates 19 electric generating units, three of which are coal-fired and 16 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil, which provides greater fuel flexibility and reliability. CPS also has a 28.0% interest in the two-unit nuclear power plant called the South Texas Project (the "STP"). When both units of STP operate as planned, they supply approximately one-third of CPS' annual electric load. The nuclear units supplied 24.7% of the electric system load during fiscal year 2003-2004 and 28.6% of the load for the twelve months ended October 31, 2004. The purchase by CPS of an additional 12% interest in STP is pending.

STP is located on a 12,220-acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from San Antonio. AEP Texas Central Company ("AEP") has sold its generation facilities in ERCOT, including its interest in STP. CPS and Texas Genco, L.P. ("Texas Genco") exercised rights of first refusal and have committed to purchase AEP's interest. Texas Genco will purchase an additional 13.2% interest in STP from AEP, bringing its ownership to 44%. CPS will use proceeds from its $160 million bond issue that closed on November 18, 2004 (the "Bonds") to purchase an additional 12% from AEP, bringing its ownership to 40%. (See "Recent Financial Transactions"). If either the Texas Genco or CPS purchase fails to close, the other has agreed to purchase the remaining AEP share of STP. Close of the purchase of CPS' portion of AEP's interest in STP is contingent upon receipt of two additional regulatory approvals, one from the U.S. Nuclear Regulatory Commission ("NRC"), for transfer of AEP's NRC licenses for STP, and another from the U.S. Internal Revenue Service ("IRS"), for an IRS Private Letter Ruling that the transfer of AEP's Decommissioning Funds is permitted without conditions or limitations thereon that are not reasonably acceptable to CPS. At this time, there appear to be no impediments in obtaining these regulatory approvals and CPS expects receipt of both of these regulatory approvals approximately four to six months following submittal of the respective applications to the NRC and IRS. Closing of the sale transactions is expected in the first half of 2005.

On September 30, 2004, CPS received approval for a change in the amount it charges for retail and certain wholesale rates. This $41 million base rate adjustment was designed to support the issuance of the Bonds and the increase in CPS' share of operation and maintenance expenses at STP. (See "Retail Service Rates").

STP Participant Ownership - Participants in the STP and their shares therein are as follows (MW capacity are approximations):

	Current Ownership		Following Proposed Sale of AEP's Ownership	
Participants	%	MW	%	MW
Texas Genco, L.P.	30.8	770	44.0	1,100
City Public Service	28.0	700	40.0	1,000
AEP Texas Central Company	25.2	630	0.0	0
City of Austin - Austin Energy	16.0	400	16.0	400
	100.0	2,500	100.0	2,500

STP is maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company") financed and controlled by the owners pursuant to an operating agreement among the owners and STP Nuclear Operating Company. Currently, a five-member board of directors governs the STP Nuclear Operating Company, with each owner appointing one member to serve with the STP Nuclear Operating Company's chief executive officer. All costs and output continue to be shared in proportion to ownership interests.

Joint Operating Agreement. CPS and Texas Genco entered into the Joint Operating Agreement ("JOA") effective July 1, 1996. The agreement provides that the two entities will jointly dispatch their generating plants (other than STP) in order to take advantage of the most efficient plants and favorable fuel prices to serve the combined loads of both entities. CPS and Texas Genco now share equally the benefits achieved through joint dispatch of their combined portfolio of power plants, and this arrangement is expected to continue through the term of the agreement that ends in 2009.

Transmission System. CPS maintains a transmission network for the movement of large amounts of electric power from the generating stations to various parts of the service area and to or from neighboring utilities as required. This network is composed of 138 and 345 kV lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Distribution System. The distribution system is supplied by 83 substations strategically located on the high voltage 138/345 kV transmission system. Approximately 7,426 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of approximately 304 miles of three-phase distribution lines, 82 miles of three-phase Downtown Network distribution lines, and 2,685 miles of single-phase underground residential distribution lines. Many of the residential subdivisions added in recent years are served by underground distribution systems. Presently, 70,697 street light units are in service. The vast majority of the lights are high-pressure, sodium vapor units.

Gas System

Supply Pressure System. The supply pressure system consists of a network of approximately 200 miles of steel mains that range in size from 4 to 30 inches. The entire system is coated and cathodically protected to mitigate corrosion. The supply pressure system operates at pressures between 50 psig and 274 psig, and supplies gas to approximately 267 pressure regulating stations throughout the gas distribution system which reduce the pressure to between 9 psig and 59 psig for the distribution system. A Supervisory Control and Data Acquisition computer system ("SCADA") monitors the gas pressure and flow rates at many strategic locations within the supply pressure system, and most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

Distribution System. The gas distribution system consists of approximately 4,372 miles of 2 to 16-inch steel mains and 1-1/4 to 6-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 59 psig. All steel mains are coated and cathodically protected to mitigate corrosion. The vast majority of the gas services are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure. Critical areas of the distribution system are remotely monitored by SCADA.

Implementation of New Accounting Policies

During the month of November 2002, CPS began recording unbilled revenue to correctly match monthly revenues (billed and unbilled) with the recorded monthly expenses.

Recent Financial Transactions

In both June and August of 2004, CPS restructured it New Series 2003A Bond Escrow to take advantage of favorable interest rates. CPS saved a combined $1.1 million in debt service costs.

On November 18, 2004, CPS issued the Bonds with approval from the CPS Board and City Council. These Bonds are variable rate demand obligations. CPS will use the proceeds to partially fund the purchase from AEP of an additional 300 megawatts of STP nuclear power generation and for other EG Systems improvements.

In March 2005, CPS intends to issue approximately $241 million in new money revenue bonds. CPS will use the funds to reimburse itself for $8.3 million in cash previously spent for Electric Transmission construction costs, to fund future Electric Transmission construction projects, and to fund projects related to Electric Distribution, Information, Technology & Communications and General Property. CPS will also be issuing approximately $295 million in advance refunding revenue bonds. The advance refunding will refund select New Series 1997 bonds and New Series 2002 bonds. The net present value saving in debt service from the refunding is approximately $19.5 million.

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City Public Service Historical Net Revenues and Coverage[1]

(Dollars in Thousands)	Fiscal Years Ended January 31,					
	2000	2001	2002	2003	2004	2004[2]
Gross Revenues[3]	$ 1,079,969	$ 1,389,239	$ 1,249,869	$ 1,271,656	$1,526,904	$1,438,746
Maintenance & Operating Expenses[4]	520,915	754,145	688,876	740,161	942,471	869,863
Available For Debt Service	$ 559,054	$ 635,094	$ 560,993	$ 531,495	$ 584,433	$ 568,883
Actual Principal and Interest Requirements:						
Senior Lien Obligations[5]	$ 208,925	$ 208,567	$ 212,274	$ 211,831	$ 230,250	$ 241,562
Junior Lien Obligations[6]	$ 0	$ 0	$ 0	$ 0	$ 2,111	$ 3,236
Actual Coverage-Senior Lien	2.68x	3.05x	2.64x	2.51x	2.54x	2.36x
Actual-Senior and Junior Lien	2.68x	3.05x	2.64x	2.51x	2.52x	2.32x

1 Unaudited
2 Twelve months ended October 31, 2004.
3 Calculated in accordance with the ordinances.
4 Includes nuclear decommissioning expense, excluding expense applicable to increased capacity. See "ELECTRIC SYSTEM – Generating System".
5 Net of accrued interest where applicable.
6 Junior Lien Obligations were issued May 15, 2003. Actual adjustable monthly interest payments.

San Antonio Water System

History and Management

In 1992, the City Council consolidated all of the City's water related functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City with a singular, unified voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning, and development with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which created the City's water system ("SAWS"), a single, unified system consisting of the former City departments comprising the waterworks, wastewater, and water reuse systems, together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a stormwater system and any other water related system to the extent permitted by law. To date, the City's stormwater utility system has not been incorporated into SAWS.

The City believes that establishing SAWS has helped to reduce the costs of operating, maintaining, and expanding the water systems and has allowed the City greater flexibility in meeting future financing requirements. More importantly, it has allowed the City to develop, implement, and plan for its water needs through one agency.

The complete management and control of SAWS is vested in a board of trustees (the "SAWS Board") currently consisting of seven members, including the City's Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board members are appointed from the City's north and south sides, respectively. SAWS Board membership specifications are subject to future change on the City Council.

Except as specified otherwise in various ordinances authorizing SAWS' issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS, including the expenditure and application of its gross revenues. With the exception of fixing rates and charges for services rendered by SAWS, condemnation proceedings, and the issuance of debt, the SAWS Board has full power and authority to make rules and regulations governing furnishing to customers, and their subsequent payment for, SAWS' services, along with the discontinuance of such services upon the customer's failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire by purchase or otherwise properties of every kind in connection therewith.

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.4 million residents. SAWS employs approximately 1,600 personnel and provides maintenance of over 9,300 miles of water and sewer mains.

Historical Water Consumption (Million Gallons) [1]

Fiscal Year Ended	Daily Average	Peak Day	Peak Month	Metered Usage	Metered Water Revenue
05/31/1999	159	308	July	53,520	$ 74,317,726
05/31/2000	162	269	August	57,144	80,606,965
05/31/2001	155	267	July	53,047	73,166,293
12/31/2001 [2]	159	274	July	34,839	50,517,854
12/31/2001 [3]	159	274	July	58,097	74,521,211
12/31/2002 [3]	143	222	August	52,303	77,801,600
12/31/2003 [3]	150	303	August	50,576	81,188,187

[1] Unaudited.
[2] On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
[3] 12 months ending December 31.
Source: SAWS.

Water Consumption by Customer Class (Million Gallons) [1]

	2003 [2]	2002 [2]	2001 [2]	2001 [3]	2001	2000	1999
Residential	27,760	28,372	29,003	19,397	28,694	31,008	29,496
Commercial	11,730	11,942	12,371	6,538	12,384	13,536	11,616
Apartment	7,794	7,791	7,718	4,641	7,783	8,148	8,136
Industrial	2,473	2,696	2,670	1,617	2,737	2,724	2,820
Wholesale	136	173	531	770	535	624	528
Municipal	683	876	784	350	914	1,104	924
	50,576	51,850	53,077	33,313	53,047	57,144	53,520

[1] Unaudited.
[2] 12 months ending December 31.
[3] On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven months ending December 31, 2001.
Source: SAWS.

SAWS System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, chilled water, and steam (collectively, the "waterworks system"), collection and treatment of wastewater (the "wastewater system"), and treatment and recycle of wastewater (the "recycle water system") (the waterworks system, the wastewater system, and the recycle water system, collectively, the "system"). The system does not include any "Special Projects," which are declared by the City, upon the recommendation of the SAWS Board, not to be part of the system and are financed with obligations payable from sources other than ad valorem taxes, certain specified revenues, or any water or water-related properties and facilities owned by the City as part of its electric and gas system.

In addition to the water related utilities that the SAWS Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the stormwater quality program with the SAWS Board and adopted a schedule of rates to be charged for stormwater drainage services and programs. As of the date hereof, the stormwater program is not deemed to be a part of the system.

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS' service area currently extends over approximately 561 square miles, making it the largest water purveyor in Bexar County. SAWS served more than 80% of the water utility customers in Bexar County and provides potable water service to approximately 306,300 customers, which includes residential, commercial, apartment, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 14 elevated storage tanks and 38 ground storage reservoirs with combined storage capacities of 144.7 million gallons. By the end of calendar year 2003, the waterworks system had in place 4,251 miles of distribution mains, ranging in size from 6 to 61 inches in diameter (the majority being between six and 12 inches), and 22,117 fire hydrants distributed evenly throughout the SAWS service area.

Wastewater System. The San Antonio City Council created the City Wastewater System in 1894. A major sewer system expansion program began in 1960 with bond proceeds that provided for new treatment facilities and an enlargement of the wastewater system. In 1970, the City became the Regional Agent of the Texas Commission on Environmental Quality ("TCEQ") (formerly known as the Texas Water Commission and the Texas Water Quality Board). The Regional Agent Boundary encompasses approximately 360 square miles within Bexar County. In 1992, the wastewater system was consolidated with the City's waterworks and recycle water system to form the System.

SAWS serves the residents of the City, 18 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 403 square miles. SAWS also coordinates with the City of San Antonio for wastewater planning for the City's total planning area, Extra-territorial Jurisdiction ("ETJ"), of approximately 956 square miles. The population for this planning area is approximately 1.2 million people.

In addition to the treatment facilities owned by SAWS, there are six privately owned and operated sewage and treatment plants within the San Antonio ETJ. There are approximately 321,000 wastewater sewer connections within Bexar County. Of these, SAWS serves approximately just over 330,000 customers.

The wastewater system is composed of approximately 5,000 miles of mains; three major treatment plants (Dos Rios, Leon Creek and Salado Creek); and a smaller treatment plant (Medio Creek). The three major plants are activated sludge facilities and the small plant is an extended aeration plant. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for each of these four plants which have a combined treatment capacity of 225.7 million gallons per day. In addition, SAWS operates and maintains several small satellite facilities that vary in number and are temporary, pending completion of interceptor sewers that will connect the flow treated at such facilities to the wastewater system. The permitted flows from the wastewater system's four regional treatment plants represent approximately 98% of the municipal discharges within the ETJ.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its wastewater treatment plants, and has been doing so since 2000. The recycle system is comprised of two north/south transmission lines and an interconnecting line that is one-third complete. Current capacity is 35,000 acre-feet.

Chilled Water and Steam System. SAWS owns and operates eight thermal energy facilities providing chilled water and steam services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water and/or steam service to 23 customers. Numerous City of San Antonio facilities that include the Convention Center and Alamodome constitutes approximately 75% of the downtown system's chilled water and steam annual production requirements. The remaining six thermal energy facilities, owned and operated by SAWS, provide chilled water and steam services to large industrial customers located in the Kelly USA industrial area on the City's west side. Additionally, under a Memorandum of Agreement with the Brooks Development Authority, SAWS provides operational and maintenance services for the Brooks City Base central thermal energy facility and two small satellite sites. Together, chilled water and steam services produced $12,823,938 in revenues in fiscal year 2004.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to EPA-mandated stormwater runoff and treatment requirements. The City, along with SAWS, has the responsibility, pursuant to the "Authorization to Discharge under the National Pollutant Discharge Elimination System" (the "Permit"), for water quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the Permit. The approved annual budget for the SAWS share of program responsibilities for fiscal year 2004 is $3,206,210, for which SAWS is reimbursed $2,746,327 from the storm water utility fee imposed by the City.

Water Supply

Until recently, the City obtained all of its water through wells drilled into a geologic formation known as the Edwards Limestone Formation. The portion of the formation supplying water in the City's area has been the "Edwards Underground Water Reservoir" (the "Edwards Aquifer") and since 1978 has been designated by the Environmental Protection Agency as a sole-source aquifer under the Safe Drinking Water Act. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size, and including its recharge zone, it underlies all or part of 13 counties, varying from five to 30 miles in width, and stretching over 175 miles in length, beginning in Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it.

Much of the Edwards Aquifer region consists of agricultural land, but it also includes areas of population ranging from communities with only a few hundred residents to the City and other urban areas with well over one million residents. The Edwards Aquifer supplies nearly all the water for the municipal, domestic, industrial, commercial, and agricultural needs in its region. Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed by Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The water level of the Edwards Aquifer has never fallen below the uppermost part of the Edwards Aquifer, even during the extreme and lengthy drought conditions lasting from 1947 to 1956. The maximum fluctuation of water levels at the City's index well has been about 91 feet, with the recorded low of 612 feet above sea level in August 1956 and a recorded high of 703 feet above sea level in June 1992. The historical (1934 to 2001) average water level at the index well in San Antonio is approximately 664 feet above sea level. SAWS sets all pumps at 575 feet to ensure continuous access to Edwards Aquifer water in any anticipated condition.

The Edwards Aquifer is recharged by seepage from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern area. Practically continuous recharge is furnished by spring-fed streams, with storm water runoff adding additional recharge, as well. The historical annual recharge to the reservoir is approximately 684,700 acre-feet. The average annual recharge over the last four decades is approximately 797,900 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the recharge zone. The recharge dams, or flood-retarding structures, slows floodwaters and allows much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer.

Enhancing the City's Water Supply

The City has relied on the Edwards Aquifer as its sole source of water since the 1800s. Beginning in the 1980s and continuing today, however, the management of the water in the Edwards Aquifer has been the subject of intense scrutiny that has led to both extensive litigation and federal and state agency initiation of regulatory action. In 1993, the Texas Legislature adopted the Edwards Aquifer Authority Act, which created a new regulatory agency to manage withdrawals from the Edwards Aquifer and to protect springflows. This agency, known as the Edwards Aquifer Authority ("EAA"), is charged with preserving and protecting the Edwards Aquifer in an eight-county region including all of Uvalde, Medina, and Bexar counties, plus portions of Atascosa, Caldwell, Guadalupe, Comal, and Hays counties.

Based upon population and water demand projections, along with various regulatory and environmental issues, the City recognizes that additional water sources will be required to supplement withdrawals from the Edwards Aquifer to enable the City to meet the its long-term water needs.

SAWS' Water Resources Department is charged with the responsibility of identifying additional water resources for the City and its surrounding areas. New water resource projects range from optimizing the City's current source through conservation measures, to identification and procurement of completely new and independent water sources. These efforts are guided by the 1998 Water Resource Plan, the first comprehensive, and widely supported water resource plan for the City, which established programs for formulating and implementing both immediate and long-term water plans to enhance the City's water supply. In October 2000, the City Council created a permanent funding mechanism (the "Water Supply Fee") to be used for water supply development and water quality protection. The Water Supply Fee is based upon a uniform rate per 100 gallons of water used and is applied to all customers. The Water Supply Fee is projected to generate sufficient revenue to support approximately $519 million in capital expenditures, as well as sufficient operational funds to conduct the planning, operation, and maintenance of such water resource facilities through 2005. The multi-year financial plan will be updated every three years to ensure sufficient revenues are available to meet the water resource requirements.

A listing of scheduled water supply fees for years 2001-2005 is provided in the following table:

Year	Incremental Charge Per 100 Gallons	Total Charge Per 100 Gallons	Actual Assessment
2001	$ 0.0358	$ 0.0358	$ 0.0358
2002	0.0350	0.0708	0.0708
2003	0.0230	0.0938	0.0844
2004	0.0190	0.1128	0.1100
2005	0.0250	0.1378	0.1378

Source: SAWS, approved by City Council.

SAWS has determined that the City's water needs can be met through the implementation of an array of programs and projects, including a critical period management plan, conservation, agricultural irrigation efficiencies, reuse, surface water, non-Edwards Aquifer groundwater, enhanced recharge capabilities, and aquifer storage and recovery. SAWS has already initiated and/or implemented many such programs in an effort to increase the supply of water available to the City. Development of additional non-Edwards Aquifer supplies as described below should result in predictable and certain water supply necessary to meet anticipated peak demands.

Conservation Program. SAWS has implemented an aggressive water conservation program, which has reduced pumping to 140 gallons per person per day in 2003 and will reach 132 gallons per person per day over the next five to ten years. This will be accomplished through a diverse set of programming including consumer education, rebates for water-efficient technologies, system improvements to prevent water loss, and other measures. SAWS has a unique commercial conservation program as well as a strong residential program. The Community Conservation Committee is a group of stakeholders appointed by the Board of Trustees to advise SAWS on water conservation issues. The Conservation Program is based on partnerships with stakeholders.

SAWS has also developed partnerships with local authorities, groundwater districts, and purveyors to ensure the conservation messages and programs are available throughout the region. The Water Advisory Group, consisting of cities throughout Bexar County and the Edwards Aquifer region meets regularly to coordinate conservation, drought management, and other water resource policies.

Short-Term Supply

Edwards Aquifer Acquisitions. The Edwards Aquifer will always be the cornerstone of San Antonio's water supply and SAWS has spent approximately $30.9 million to buy Edwards water since the inception of the Water Supply Fee in 2001. Under drought conditions, SAWS' pumping permit from the EAA is expected to provide approximately 135,000 acre-feet per year through 2007, and 120,000 acre-feet per year thereafter if further reductions are required. SAWS has also been proactive in acquiring permanent Edwards Aquifer water rights. To this date SAWS has purchased 38,000 acre-feet, under average conditions, (32,000 under drought conditions) of additional rights above the base permit amount and will continue to purchase available water rights.

Leases. SAWS will acquire approximately 50,000 acre-feet of additional Edwards Aquifer pumping rights (42,500 acre-feet under drought conditions) by purchase or lease of water rights from irrigators west of San Antonio and have spent about $6.2 million in leases since the inception of the Water Supply Fee in 2001. SAWS is committed pursuant to SAWS Board policy not to acquire so much water from this source that it would undermine the agricultural economy of the region.

Brush Management/Agriculture Conservation. SAWS is committed to the conservation of irrigation water within the region as well as all irrigation water that is associated with various SAWS water resource development projects. Edwards Aquifer water conserved by agriculture is mutually beneficial to all users. The Agricultural Conservation Program is categorized into three components: direct conservation, research & education, and regional partnership projects.

Direct Conservation. The most significant quantity of water to be conserved can be derived from improving the efficiency of agricultural irrigation systems.

Research and Education. SAWS, in partnership with regional interests, supports research and implementation of watershed activities (i.e., brush management) that increases watershed yield.

Regional Partnership Projects. Development of the Irrigation Technology Center (“ITC”) is moving forward. The ITC will be a unique world-class facility with four primary missions: 1) Develop design and performance standards for agricultural and landscape irrigation systems; 2) Establish an equipment testing and certification program; 3) Provide training and educational services for irrigators, agency, and industry personnel; and 4) Develop new and improved irrigation technologies, methods, and management practices. This new facility is now planned to be located at or near the newly planned Texas A&M campus to be located in Bexar County. SAWS support of the facility and the research will provide a direct benefit to all irrigation water use, both agricultural and urban.

Edwards Aquifer Optimization. The Aquifer Optimization Program conducts sound scientific research to evaluate whether the pumping limits defined in Senate Bill 1477 can be increased without compromising the management goals of Senate Bill 1477. Key objectives include maintaining the endangered species and their habitats at Comal and San Marcos springs and providing flow from the springs for downstream users. Technical options must be identified and evaluated to increase available water in the Edwards Aquifer and to use the aquifer’s storage capacity more efficiently. This program is primarily the responsibility of the EAA, however, SAWS provides staff support to manage the Technical Advisory Group, as well as direct financial support. The Edwards Aquifer Optimization program consists of 14 long-range studies that are designed to increase our knowledge of how the aquifer works and determine the effects on ecosystems dependent on water from the Edwards Aquifer. SAWS is working with the EAA to study the feasibility of "Recharge and Recirculation".

Water Recycling Program. SAWS owns the treated effluent from its wastewater treatment plants and has the authority to contract to acquire and to sell non-potable water inside and outside SAWS' water and wastewater service area. SAWS anticipates a delivery of reuse water at or near capacity within two years. Construction efforts have been concentrated on completion of two major branches of the water reuse system serving the eastern and western portions of the City. SAWS anticipates operation of this program at full capacity within two years, culminating in the conversion to non-potable water uses for those currently using Edwards Aquifer water. Upon completion, SAWS will deliver up to 35,000 acre feet per year of reuse water for non-potable water uses including golf courses and industrial uses that are currently being supplied from the Edwards Aquifer. This represents approximately 20% of SAWS' current usage. This infrastructure project will have transmission mains throughout the City, as well as storage and treatment components. Reuse water will be delivered for industrial processes, cooling towers, and irrigation, which would otherwise rely on potable quality water. Combined with the 40,000 acre-feet per year used by CPS, this is the largest reuse water project in the Bexar County. SAWS has a contract with CPS through 2030 for provision of such reused water. The revenues derived from the CPS contract have been excluded from the calculation of SAWS gross revenues, and are not included in any transfers to the City.

Aquifer Storage and Recovery (ASR). In October 2002, TCEQ authorized SAWS to construct and operate a 60 million-gallon per day water injection and recovery facility in South Bexar County. The Edwards Aquifer has been identified as the source of supply to the South Bexar County ASR project. This storage technology has been successfully proven as an economical and environmentally sensitive alternative to surface water reservoirs in many instances across the nation. The ASR administration building, well field pipeline and treatment plant facilities were completed and operational in mid-2004. The second phase of the project will be completed in 2005. Phase II builds the infrastructure necessary to double the storage capacity to 22,500 acre-feet. In addition to the storage capacity which will reduce drought impacts, SAWS will also be able to produce 6,400 acre-feet of non-Edwards groundwater.

Trinity Aquifer. SAWS introduced the first non-Edwards supply into its potable water system in February of 2002. This groundwater project is produced from the Lower Glen Rose/Cow Creek formation of the Trinity Aquifer in Northern Bexar County. Sustainability studies show that approximately 5,000 acre-feet per year can be sustained from this source. SAWS will continue to monitor and develop a sustainable yield on this source of supply. Production of Trinity water from both the Oliver Ranch and BSR properties is fully operational.

Western Canyon Project (Canyon Reservoir). SAWS has contracted with the Guadalupe-Blanco River Authority ("GBRA") for 8,500 acre-feet of water from Canyon Lake to serve customers in the northern and northwestern portion of its service area. The annual volume from this project will decrease over time to a minimum annual supply of 3,900 acre-feet. This will be the first regional project to be delivered in the Comal, Kendall, and Northern Bexar County area. This project has endured numerous legal challenges in which GBRA has prevailed. The water treatment plant and intake structure construction contracts have been awarded. Final design of the raw water pipeline is approximately 90% complete and construction contracts have been awarded. The project is scheduled to be completed and ready for delivery in late 2005.

Regional Carrizo. The Carrizo-Wilcox is one of the state's major aquifers and an important groundwater resource in South Central Texas. SAWS completed an initial feasibility study on the Carrizo-Wilcox Aquifer, which is located between the Frio and San Marcos Rivers covering all or parts of Atascosa, Bexar, Frio, Gonzales, Guadalupe, Karnes, La Salle, Live Oak, McMullen, Medina, and Wilson Counties. The results of the study indicate that a potential groundwater supply project could be developed in Gonzales and Wilson Counties to provide the San Antonio region with approximately 55,000 acre-feet per year. The project will be developed in phases as approved by the SAWS Board. Western Gonzales County (approximately 22,000 af/yr) will be brought into San Antonio in approximately 2008. Phase II of the project (water from Wilson County) will provide approximately 11,000 af/yr in 2009. Phase III of the project is expected to bring in water (22,000 af/yr) from northeastern Gonzales County in approximately 2011.

Edwards Recharge Initiatives. SAWS, as well as the South Central Texas Regional Planning Group, have recently evaluated the most favorable structures for this region. The Nueces, San Antonio, and Guadalupe River

Basins are favorable for development of recharge projects. Structures in the Nueces Basin are the most prolific in terms of recharge effectiveness. Once these structures are built, the sustained yield from this project will be over 13,000 acre-feet per year. SAWS is currently involved in two studies with the U.S. Army Corps of Engineers and other local sponsors. The studies involve the Cibolo Creek and the Nueces River watersheds, which include researching the feasibility of placing recharge structures within the watersheds. The studies are scheduled to be completed within five years. This project is programmed to come online in the 2013 timeframe.

Long-Term Supply

Simsboro Project. SAWS signed a contract with ALCOA for the purchase of water from their Rockdale property located in Lee and Milam Counties in December 1998. A second contract with CPS to purchase water rights from CPS-owned lands in Bastrop County was also approved at that time. Combined water production from these two properties is expected to provide 55,000 acre-feet of water per year from the Simsboro Aquifer for 80 years or more starting in 2015.

Lower Guadalupe Water Supply Project (LGWSP). SAWS, the San Antonio River Authority ("SARA"), and GBRA have entered into an agreement to divert presently under-utilized surface water rights and unappropriated streamflow from the Guadalupe River together with groundwater from the Gulf Coast aquifer. Approximately 94,500 (SAWS-85,050 and SARA-9,450) acre-feet/yr of water will be provided initially under this contract. Water will be diverted at a point below the confluence of the Guadalupe River and San Antonio River, located approximately 133 miles southeast of San Antonio. A companion agreement between SAWS and SARA divided the rights and responsibilities of the purchasers in the above-mentioned Water Supply and Delivery Agreement with GBRA. The SAWS/SARA agreement provides that all water users within SARA's district and other water providers within Bexar County will have an opportunity to participate at their cost in the water supply made available from the Lower Guadalupe Water Supply Project.

This project is scheduled to come online in the 2015 timeframe. The Concept Development Study was completed in October 2004 and work continues on the Groundwater Availability Report, environmental studies, and surface water permits.

LCRA-SAWS Water Project. The State's SB-1 regional planning groups have determined that additional water supplies are available in the Lower Colorado River Basin. Approximately 150,000 acre-feet may be available within the basin by the Lower Colorado River Authority. SAWS and LCRA signed the definitive agreement on February 27, 2002. The contract starts with a seven-year study period that began in 2002. Dollars will be programmed in the short term to fund the necessary studies. If the project is determined to be feasible, an implementation plan will be developed. If both the LCRA and SAWS Board approve the implementation plan, the contract will provide for an initial 50-year water supply transfer and a 30-year extension provision for the development and delivery of this supply. All six of the environmental/ groundwater/conservation feasibility studies were initiated in July 2004. This project is scheduled to come online within the 2035-2040 timeframe.

Capital Improvement Plan

The following is a proposed five-year Capital Improvement Program for SAWS. It is the intention of SAWS to fund the program with tax-exempt commercial paper, impact fees, system revenues, and future bond issues. SAWS budgeted the following capital improvement projects during calendar year 2005:

- $36.8 million for the wastewater treatment program to repair, replace, upgrade, or expand treatment facilities;
- $5.1 million for the wastewater collection program to repair, replace, upgrade, or expand the collection system;
- $15.9 million to replace sewer and water mains;
- $33.6 million for the governmental replacement and relocation program;
- $10.4 million for the water distribution program to upgrade and expand the distribution system; and
- $12.8 million for water supply development, water treatment, and water transmission projects for new sources of water.

SAWS anticipates the following capital improvement projects for the five fiscal years listed:

	Fiscal Year Ended December 31,					
	2005	2006	2007	2008	2009	Total
Heating and Cooling	$ 1,206,150	$ 436,839	$ 327,341	$ 1,667,414	$ 1,136,539	$ 4,774,283
Water Delivery	36,258,469	48,195,851	42,325,094	46,567,466	40,559,398	213,906,278
Wastewater	73,741,531	65,107,689	75,978,348	75,214,525	85,506,567	375,548,660
Water Supply	128,752,800	96,268,370	178,641,014	39,849,700	80,609,100	524,120,984
Total Annual Requirements	$ 239,958,950	$ 210,008,749	$ 297,271,797	$ 163,299,105	$ 207,811,604	$ 1,118,350,205

Source: SAWS.

Project Funding Approach

The following table was prepared by SAWS staff based upon information and assumptions it deems reasonable, and shows the projected financing sources to meet the projected capital needs.

	Fiscal Year Ended December 31,				
	2005	2006	2007	2008	2009
Revenues	$ 17,988,111	$ 26,988,100	$ 31,792,641	$ 40,799,573	$ 46,486,891
Impact Fees	25,609,331	9,753,471	9,899,773	10,048,270	10,198,994
Debt Proceeds	196,361,508	173,267,178	255,579,383	112,451,262	151,125,719
Total	$ 239,958,950	$ 210,008,749	$ 297,271,797	$ 163,299,105	$ 207,811,604

Source: SAWS.

Recent Financial Transactions

In June 2004, SAWS issued $84,700,000 City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004 for construction of additions to the system and to refund certain outstanding commercial paper notes. SAWS also issued $10,635,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004, and $26,365,000 City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2004-A through the Texas Water Development Board in July 2004 for construction of additions to the system and to refund certain outstanding commercial paper notes.

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San Antonio Water System Summary of Pledged Revenues for Debt Coverage [1]

	Fiscal Year Ended December 31			7 Month Period Ended December 31,	Fiscal Year Ended May 31,		
	2003	2002	2001[1]	2001[2]	2001	2000	1999
Revenues							
Water System	$ 65,163,910	$ 58,873,352	$ 79,451,701	$ 52,803,937	$ 77,044,280	$ 82,485,798	$80,975,392
Water Supply	76,044,416	76,167,052	36,684,084	23,537,496	21,863,709	11,919,369	2,056,493
Wastewater System	87,683,794	89,312,338	87,438,542	51,541,185	91,175,034	96,194,858	92,775,036
Chilled Water and Steam System	12,193,646	10,871,599	12,899,862	6,822,031	9,800,573	5,127,414	4,234,203
Non Operating Revenues[3]	6,992,664	7,547,353	-0-	12,249,485	7,341,296	8,468,123	5,494,022
Adjustments for Pledged Revenues	(5,591,341)	(6,985,130)	-0-	(3,770,167)	(4,334,051)	(6,749,142)	(3,733,765)
Total Revenues	$242,487,089	$235,786,564	$216,474,189	$143,183,967	$202,890,841	$197,446,420	$181,801,381
Maintenance and Operating Expenses	$152,716,590	$138,212,615	$134,616,252	$ 78,448,318	$121,350,696	$115,016,340	$100,429,763
Net Revenue Available for Debt Service	$ 89,770,501	$ 97,573,949	$ 64,735,649	$ 64,735,649	$ 81,540,145	$ 82,430,080	$ 81,371,618
Maximum Annual Debt Service Requirements – Total Debt[4]	$ 76,075,114	$ 66,267,591	N/A	N/A	$ 66,994,372	$ 62,099,234	$ 49,385,448
Maximum Annual Debt Service Requirements – Senior Lien Debt[4]	$ 61,511,375	$ 61,511,375	N/A	N/A	$ 56,293,054	$ 53,566,454	$ 49,385,448
Debt Service for Period	N/A	N/A		$ 38,081,878	N/A	N/A	N/A
Coverage of Total Annual Debt Service Requirements	1.18 X	1.47 X	N/A	N/A	1.22 X	1.33 X	1.65 X
Coverage of Senior Lien Annual Debt Service Requirements	1.46 X	1.59 X	N/A	N/A	1.45 X	1.54 X	1.65 X

1 Unaudited.

2 On April 3, 2001, the SAWS Board approved the changing of the fiscal year from a year-end of May 31 to December 31. Report is for the seven (7) months ending December 31, 2001.

3 Beginning in 2001, capital contributions, including items such as impact fees, were recognized as non-operating income in accordance with GASB 34. The non-operating revenues have been re-stated to remove the capital contributions to conform to the Ordinance.

4 As of the end of the fiscal year shown, excludes TECP, see "City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2004, Debt Information – Table 11 – Coverage and Fund Balances" for coverage ratio after issuance of the Bonds.

Source: SAWS.

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The Airport System

General

The City's airport system consists of the San Antonio International Airport (the "International Airport" or the "Airport") and Stinson Municipal Airport ("Stinson") (the International Airport and Stinson, collectively, the "Airport System"), both of which are owned by the City and operated by its Department of Aviation (the "Department").

The International Airport, located on a 2,600-acre site that is adjacent to Loop 410 and U.S. Highway 281, is eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Presently, domestic air carriers providing scheduled service to San Antonio are America West, American, Atlantic Southeast, Comair, Continental, Continental Express, Delta, Midwest, Northwest, Skywest, Southwest, United, and United Express. Mexicana, Aerolitoral, and Aeromar are Mexican airlines that provide passenger service to Mexico. The City is currently implementing portions of its Airport Master Plan, including designs allowing for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 82% of capacity. A variety of services are available to the traveling public from approximately 245 commercial businesses, including nine rental car companies, which lease facilities at the International Airport and Stinson.

Stinson, located on 300 acres, is located approximately 5.2 miles southeast of the City's downtown business district. Established in 1915, and named for the Stinson family, aviation pioneers, Stinson is one of the country's first municipally owned airports. It is today the second oldest continuously operating airport in the U.S. and is the FAA's designated general aviation reliever airport to the International Airport. During 2001, a process was initiated to develop a new Stinson Master Plan which was completed in 2002. The Master Plan provides recommendations for airfield and facility improvements needed to meet growing operation demands. The planning effort will facilitate the development of Stinson to expand its role as a general aviation reliever to the International Airport. The Texas Department of Transportation accepted the Stinson Master Plan in 2002 and has recommended $16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, KellyUSA, and Stinson. A Targeted Industries Study was completed in 2003 as part of the master planning process. The study will help facilitate development of Stinson properties through the identification of industries and businesses considered to be compatible for locating at Stinson.

Capital Improvement Plan

General. In fiscal year 2002, the City commenced implementation of a ten-year Capital Improvement Plan (the "CIP") pursuant to the Master Plan for the International Airport. The CIP is scheduled to conclude in fiscal year 2011. However, due to the terrorist attacks which occurred on September 11, 2001, the timing of some projects has been adjusted and the ultimate completion of the plan may extend beyond that date. The CIP addresses both terminal and airfield improvements. The CIP includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and extension and improvement to two runways along with supporting taxiways and aircraft apron. The capital program over the next five years addresses primarily terminal-related improvements, parking, roadway improvements, and airfield improvements.

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The anticipated sources of funding are as follows:

Funding Sources	Anticipated Funding
Federal Grants	
Entitlements	$ 27,054000
General Discretionary	45,105,000
Noise Discretionary	20,867,000
Passenger Facility Charges ("PFCs")	
Pay-As-You-Go	39,831,000
PFCs Secured Bonds	102,548,000
Other Funding	
Airport Funds	34,596,000
Airport Revenue Bonds	70,604,000
Total – All Sources	$340,605,000

The CIP includes capital improvements, which are generally described as follows:

Improvement	Amount
International Airport	
Terminal/Gate Expansion	$121,389,000
Airfield Improvements	87,173,000
Cargo Facilities	11,368,000
Roadway Improvements	21,376,000
Parking Improvements	46,865,000
Aircraft Apron	22,504,000
Other (Building Imp., Drainage, etc.)	20,819,000
Stinson Airport	9,111,000
Total	$340,605,000

Proposed PFC Projects. Public agencies wishing to impose PFCs are required to apply to the Federal Aviation Administration (the "FAA") for such authority and must meet certain requirements specified in the PFC Act and the implementing regulations issued by the FAA.

The FAA issued a Record of Decision on August 29, 2001 approving the City's initial PFC application. The City, as the owner and operator of the Airport, has received authority to "impose and use" PFCs at the $3.00 level on five projects and to "impose only" PFCs on six other projects. On July 24, 2003, the City received approval from the FAA on its second application for "impose and use" authority on two projects which were previously "impose only."

The City began on November 21, 2001, collecting a $3.00 PFC (less the $0.08 air carrier collection charge) per paying passenger enplaned. A total of approximately $102.5 million in PFC revenues will be required to provide funding for these projects at the Airport included in the CIP and are listed below.

The following projects have been approved as "impose and use" projects:

Construct 30L Holding Apron
Modify Wash Rack Apron
Replace RON (remain overnight) Apron
Implement Terminal Modifications
Reconstruct Perimeter Road
Construct New Concourse B
Construct Concourse B Access Road
Implement Acoustical Treatment Program

The following projects have been approved as "impose only" projects:

Construct Three High-Speed Taxiways
Extend Runway 21 and Associated Development
Construct Aircraft Rescue and Firefighting Training Facility

Terminal Renovations. A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which cost approximately $28 million, included a completely new appearance to the building interiors and provided state-of-art terminal amenities. Included in the terminal renovations was complete redevelopment of the concessions program that provided high-quality retail and food establishments offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 42 concession contracts were awarded. The new concessions program is also projected to increase revenues in the Airport from $3.2 million in fiscal year 2002 to $4.8 million in fiscal year 2004. On a per-boarding passenger basis, concession revenue is expected to go from $0.99 in fiscal year 2002 to $1.31 for fiscal year 2004. Following the Airport's implementation of its new concessions program, it was recognized by the *Airport Revenue News'* 2004 "Best Concessions Poll." The Airport's concession program was voted for by a panel of judges in the Airport category with less than 4 million enplanements. San Antonio won two first place awards. The Airport was honored for having the Terminal with the "Most Unique Services" and the Best Overall Concessions Program. The publication noted the Airport's high-tech business services, such as high-speed fax and internet, wireless capabilities and conference rooms. The Best Overall Concessions Program award is given to airports with a convenient customer-friendly layout, good visibility, attractive storefronts, and interesting themes. Also in 2004, *J. D. Power and Associates* announced through its Global Airport Satisfaction Index Study, San Antonio International Airport tied for the highest ranking in customer satisfaction among airports with less than 10 million passengers per year.

Parking Improvements. San Antonio International Airport operates and maintains approximately 5,810 parking spaces and 1,230 employee parking spaces for a total of 7,040 parking spaces. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport parking will exceed the available supply by the end of 2006. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. Future requirements for vehicle parking are currently being addressed with the design of a new long-term/short term garage. The design work is underway with groundbreaking for a new five-story garage, with approximately 2,260 long-term spaces and 660 short-term spaces, planned for the summer of 2005. The associated costs are included in the CIP.

Cargo Improvements. San Antonio International Airport has two designated cargo areas: The West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specifically designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics constructed a processing facility in the year 2000. UPS is in the process of expanding its facilities by reloading from the West Cargo area to the East Cargo Area in early 2005. A new belly freight facility is currently under design. Additional land has been allocated to accommodate future growth and an expansion of facilities are currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2004 totaled 133,383 tons.

Airport Operations

General. The City is responsible for the issuance of revenue bonds for the Airport System and preparation of long-term financial feasibility studies for Airport System development. Direct supervision of airport operations is exercised by the Department. The Department is responsible for (i) managing, operating, and developing the International Airport, Stinson, and any other airfields which the City may control in the future; (ii) negotiating leases, agreements, and contracts; (iii) computing and supervising the collection of revenues generated by the Airport System under its management; and (iv) coordinating aviation activities under the FAA.

The International Airport has its own police and fire departments on premises. The firefighters are assigned to duty at the Airport from the City Fire Department, but their salaries are paid by the Department as an operation and maintenance expense of the Airport System.

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards at both the International Airport and Stinson.

The passage of the Aviation and Transportation Security Act ("ATSA") in November of 2001, created the Transportation Security Administration ("TSA"). The City's Aviation Department has worked closely with the TSA to forge a new higher level of security for the traveling public. TSA employs about 300 individuals at San Antonio International Airport to meet the new federal security requirements.

International Airport's explosive detection screening equipment is currently located in the ticket lobby areas of the two terminals. However, the Aviation Department is working with the TSA to relocate all baggage screening equipment behind the terminals in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. The City entered into an agreement with the TSA for reimbursements up to $425,800 for the costs associated with the use of Airport police officers at the Airport security screening checkpoints in each terminal. The Aviation Department also utilizes four Explosive Detection Canine teams. The police officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in the baggage pickup areas, concourses, parking, cargo, and aircraft. This program is supported by the TSA with reimbursement to the Airport System at $160,500. International Airport's coverage is provided in addition to canine support received from San Antonio Police Department and Bexar County Sheriff's Office.

The Aviation Department has continued to work to improve its security measures. The FAA approved a grant application (80% AIP funding) in 2004 to conduct a security assessment of the International Airport's security program. This project includes an inventory of the existing security measures and an evaluation based on current and anticipated provisions of the ATSA. Recommendations for security enhancements and upgrades could include items such as perimeter fencing, air operations area access points, cargo/belly freight facilities, terminals, fueling areas, concession deliveries, and air traffic control tower.

Financings. On March 20, 2003, the City issued the following two series of refunding bonds payable from its collection of gross revenues of the airport system: $8,175,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-A" and $3,255,000 "City of San Antonio, Texas Airport System Revenue Refunding Bonds, Series 2003-B." The proceeds from the respective issuances of such bonds were used to refund certain of the City's outstanding debt obligations payable from the collection of gross revenues of the airport system.

On April 8, 2003, the City delivered $50,230,000 "City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003" to refund a portion of the "City of San Antonio, Texas Airport System Improvement Bonds, Series 1993" and to effectuate an interest savings equal to $3,460,075. Such bonds were sold on April 19, 2001.

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Comparative Statement of Gross Revenues and Expenses - San Antonio Airport System

The historical financial performance of the Airport System is shown below:

	Fiscal Year Ended September 30				
	2000	2001	2002	2003	2004*
Gross Revenues[1]	$ 41,523,081	$ 42,928,794	$ 42,377,654	$ 43,930,687	$ 44,729,251
Airline Rental Credit	6,175,754	5,209,037	4,468,199	2,612,609	3,486,271
Adjusted Gross Revenues	$ 47,698,835	$ 48,137,831	$ 46,845,853	$ 46,543,296	$ 48,215,522
Expenses	(21,585,826)	(23,612,635)	(22,296,698)	(25,363,607)	(25,127,534)
Net Income	$ 26,113,009	$ 24,525,196	$ 24,549,155	$ 21,179,689	$ 23,087,988

* Unaudited

[1] As reported in the City of San Antonio's audited financial statements.

Source: City of San Antonio, Department of Finance.

Total Domestic and International Enplaned Passengers - San Antonio International Airport

The total domestic and international enplaned passengers on a calendar basis, along with year-to-year percentage change:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1995	3,058,536	(6,232)	(0.20)
1996	3,568,328	509,792	16.67
1997	3,484,141	(84,187)	(2.36)
1998	3,505,372	21,231	0.61
1999	3,538,070	32,698	0.93
2000	3,647,094	109,024	3.08
2001	3,444,875	(202,219)	(5.54)
2002	3,349,146	(95,729)	(2.78)
2003	3,250,741	(98,405)	(2.94)
2004	3,498,189	247,448	7.61

Source: City of San Antonio, Department of Aviation.

Total Enplaned/Deplaned International Passengers - San Antonio International Airport

The total enplaned and deplaned for international passengers at the International Airport on a calendar year basis are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1995	141,645	(97,312)	(40.72)
1996	193,843	52,198	36.85
1997	200,965	7,122	3.67
1998	246,902	45,937	22.86
1999	229,397	(17,505)	(7.09)
2000	243,525	14,128	6.16
2001	219,352	(24,173)	(9.93)
2002	201,274	(18,078)	(8.24)
2003	159,576	(41,698)	(20.72)
2004	191,254	31,678	19.85

Source: City of San Antonio, Department of Aviation.

Air Carrier Landed Weight - San Antonio International Airport

The historical aircraft landed weight at the International Airport in 1,000-pound units on a calendar year basis is shown below. Landed weight is utilized in the computation of the Airport's landed fee.

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
1995	5,273,701	(379,872)	(6.72)
1996	5,555,613	281,912	5.35
1997	5,530,247	(25,366)	(0.46)
1998	5,601,616	71,369	1.29
1999	5,778,407	176,791	3.16
2000	5,838,185	59,778	1.03
2001	5,546,561	(291,624)	(5.00)
2002	5,559,018	12,457	0.22
2003	5,390,981	(168,037)	(3.02)
2004	5,417,764	(26,783)	(0.50)

Source: City of San Antonio, Department of Aviation.

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APPENDIX B

SELECTED PROVISIONS OF THE ORDINANCE

The following constitutes a summary of certain selected provisions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

SECTION 9: Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, certain terms used in Section 22 of this Ordinance have the meanings assigned to them in such Section, and all such terms, include the plural as well as the singular; (ii) all references in this Ordinance to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of this Ordinance as originally adopted; and (iii) the words "herein", "hereof", and "hereunder" and other words of similar import refer to this Ordinance as a whole and not to any particular Section or other subdivision.

A. The term *Act* shall mean Subchapter C of Chapter 402 of the Texas Local Government Code, as amended, or any successor statute thereof.

B. The term *Additional Bonds* shall mean revenue bonds or other evidences of indebtedness issued or entered into, as the case may be, in the future in accordance with the terms and conditions provided in Section 24 hereof and, by their terms, are equally and ratably secured by a lien on and pledge of the Revenues of the System.

C. The term *Average Annual Debt Service Requirements* shall mean an amount which, at the time of computation, is derived by dividing the total amount of Debt Service Requirements to be paid over a period of years as the same is scheduled to become due and payable by the number of years taken into account in determining the total Debt Service Requirements. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

D. The term *Bonds* shall mean the "City of San Antonio, Texas Municipal Drainage Utility System Revenue Bonds, Series 2005" authorized by this Ordinance.

E. The term *Bonds Similarly Secured* shall mean collectively, the Series 2003 Bonds, the Bonds and any Additional Bonds.

F. The term *City* shall mean the incorporated municipality known as the City of San Antonio located primarily in Bexar County, Texas.

G. The term *Credit Agreement* shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of any obligation authorized by Chapter 1371, Texas Government Code, as amended.

H. The term *Credit Facility* shall mean a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations or a letter or line of credit issued by any financial institution whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument.

I. The term *Credit Provider* shall mean any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Facility.

J. The term *Debt Service Requirement* shall mean as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on or other payments due under such obligation, assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest or other payment obligations calculated by assuming (1) that such non-fixed interest rate for every future 12-month period is equal to the rate of interest reported in the most recently published edition of The Bond Buyer (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by The Bond Buyer (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the most recently reported yield, as of the time of calculation, at which United States Treasury obligations of like maturity have been sold and (2) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to stated maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly). For the term of any interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the City under such hedge agreement from the amounts payable by the City under such hedge agreement and such obligations.

K. The term *Depository* shall mean an official depository bank of the City.

L. The term *Fiscal Year* shall mean the twelve month financial accounting period used by the City in connection with the operation of the System which may be any twelve consecutive month period established by the City.

M. The term *Government Securities*, as used herein, shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America, or (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

N. The term *Insurance Policy* shall mean the municipal bond guaranty insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

O. The term *Insurer* shall mean MBIA Insurance Corporation, or any successor thereto.

P. The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being February 1 and August 1 of each year, commencing August 1, 2005, while any of the Bonds remain Outstanding.

Q. The term *Net Revenues* shall mean Revenues of the System, with respect to any period, after deducting the System's Operating and Maintenance Expenses during such period.

R. The term *Operating and Maintenance Expenses* shall mean all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, including all salaries, labor, materials and administrative costs, allocable under generally accepted accounting principles, to the System. This term shall also include any payments made by the City, or any transfer or allocation of Revenues, to the San Antonio Water System, or any other entity utilized by the City for instream monitoring, sampling, testing and analysis, industrial site inspection, water quality modeling, inspection of illicit connections, legal services and public education relating to the System, to collect the Revenues of the System, or to construct capital improvements to the System for the benefit of the City. Depreciation charges and other costs and disbursements which may be capitalized under generally accepted accounting principles shall not be considered Operating and Maintenance Expenses.

S. The term *Outstanding* when used in this Ordinance with respect to Bonds or Bonds Similarly Secured, as the case may be, means, as of the date of determination, all Bonds Similarly Secured theretofore sold, issued and delivered by the City, except:

(1) Bonds Similarly Secured cancelled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;

(2) Bonds Similarly Secured paid or deemed to be paid in accordance with the provisions of Section 32 hereof; and

(3) Bonds Similarly Secured that have been mutilated, destroyed, lost, or stolen and replacement bonds have been registered and delivered in lieu thereof.

T. The term *Required Reserve* shall mean the total amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 14 hereof.

U. The term *Revenues* shall mean all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding restricted gifts, grants in aid of construction and any amounts received from drainage charges specifically provided by ordinance for contribution to the funding of future drainage system construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds Similarly Secured and other obligations payable solely from and secured only by a lien on and pledge of the Revenues of the System, and excluding those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code.

V. The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on February 1 of each year, as set forth in Section 2 of this Ordinance.

W. The term *System or Municipal Drainage Utility System* shall mean all land, easements and interest in land, together with all structures, equipment and facilities used in draining benefitted property (within the meaning of the Act), including, but not limited to, bridges, catch basins, channels, conduits, creeks, culverts, detention ponds, ditches, draws, flumes, pipes, pumps, sloughs, treatment works, and appurtenances to those items, whether natural or artificial, or using force or gravity, that are used to draw off surface water from land, carry the water away, collect, store, or treat the water, or divert the water into natural or artificial watercourses and excluding the property or entities exempted from the Act pursuant to Section 402.053 of the Act; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not mean to include facilities of any kind which are declared not to be a part of the System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of *Special Facilities Bonds,* which are hereby defined as being special revenue obligations of the City which are not payable from Revenues but which are payable from and equally and ratably secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Bonds Similarly Secured including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION 10: Pledge.

A. The City hereby covenants and agrees that the Revenues of the System, with the exception of those in excess of the amounts required for the payment and security of the Bonds Similarly Secured, are hereby irrevocably pledged, to the payment and security of the Debt Service Requirements on the Bonds (including any Credit Agreements) and any Additional Bonds, if issued, including the establishment and maintenance of the special funds created and established by this Ordinance, all as hereinafter provided, and it is hereby ordained that such pledge of the Revenues securing the payment of the Bonds Similarly Secured and interest thereon shall constitute a first lien on such Revenues and be valid and binding in accordance with the terms hereof without any filing or recording thereof (except in the official records of the City) or physical delivery of such Revenues or further act by the City.

B. Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds Similarly Secured and the pledge of Revenues granted by the City under subsection (a) of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at anytime while the Bonds Similarly Secured are outstanding and unpaid such that the pledge of the Revenues granted by the City is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds Similarly Secured the perfection of the security interest in this pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

SECTION 11: Rates and Charges. For the benefit of the Holders of the Bonds Similarly Secured and in accordance with the provisions of the Act and other applicable laws of the State of Texas, the City hereby expressly stipulates and agrees, while any of the Bonds Similarly Secured are Outstanding, to establish, maintain and impose drainage charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Revenues in each Fiscal Year sufficient:

(1) to pay the principal of and interest on the Bonds Similarly Secured (including any Credit Agreement) and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Bonds Similarly Secured, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the Revenues of the System,

(2) to pay for all Operating and Maintenance Expenses,

(3) in an amount equivalent to at least 1.25 times the annual Debt Service Requirements for the Fiscal Year on the Bonds Similarly Secured then Outstanding, and

(4) to pay all other indebtedness payable from and/or secured in whole or in part by a lien on and pledge of the Revenues of the System.

SECTION 12: System Fund. The City hereby covenants and agrees that the Revenues of the System (excluding earnings and income derived from investments held in the Bond Fund and Reserve Fund) shall be deposited as collected to the credit of a fund maintained at the Depository, and known on the books and records of the City as the "Drainage Utility System Fund" (herein called the *System Fund*). All revenues deposited in the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

First: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service Requirements on the Bonds Similarly Secured (including any Credit Agreement) as the same becomes due and payable.

Second: To the payment of all necessary and reasonable Operating and Maintenance Expenses.

Third: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Ordinance or any other ordinance relating to issuance of Bonds Similarly Secured, including payment of amounts, if any, pursuant to the terms of a Credit Facility as provided in Section 14 hereof.

Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be transferred to the City's general fund or used for any other purpose now or hereafter permitted by law.

SECTION 13: Bond Fund; Excess Bond Proceeds. For the purpose of paying the interest on and to provide a sinking fund for the payment, redemption, and retirement of the Bonds Similarly Secured (including any Credit Agreement), the creation of a special Fund to be designated "City of San Antonio Drainage Utility System Revenue Bond Interest and Sinking Fund" (the "*Bond Fund"*), which Fund shall be kept and maintained at the Depository, and money deposited in such Fund shall be used for no other purpose and shall be maintained as provided in Section 23, is hereby confirmed. The City covenants that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the available Revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the Bonds then falling due and payable, such deposits to pay maturing principal and accrued interest on the Bonds to be made in substantially equal monthly installments on or before the tenth day of each month, beginning on or before the tenth day of the month next following the delivery of the Bonds to the Purchasers. If the Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Bond Fund and Reserve Fund is equal to the amount required to fully pay and discharge all outstanding Bonds (principal and interest) or, (ii) the Bonds are no longer Outstanding.

Accrued interest received from the Purchasers shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Revenues of the System. Additionally, any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Revenues of the System.

SECTION 14: Reserve Fund. For purposes of accumulating and maintaining a reserve amount for the payment of the Bonds Similarly Secured, the City agrees and covenants to create and maintain a special fund or account on its books and records known as the "City of San Antonio Drainage Utility System Revenue Bond Reserve Fund" (the *Reserve Fund*). All moneys deposited to the credit of such Fund shall be held in a fund or account maintained at the Depository. All funds deposited to the credit of the Reserve Fund (excluding investment or deposit earnings and income which may be transferred to the System Fund established in Section 12 hereof during such periods as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds Similarly Secured when (whether at maturity, upon a mandatory redemption date or any interest payment date) other funds available for such purposes are insufficient, and, in addition, may be used to the extent not required to maintain the Required Reserve, to pay, or provide for the payment of, the final principal amount of a series of Bonds Similarly Secured so that such series of Bonds Similarly Secured is no longer deemed to be Outstanding.

Initially, the total amount to be accumulated and maintained in the Reserve Fund by reason of the issuance of the Bonds shall be an amount equal to the Average Annual Debt Service Requirements for the Bonds (calculated on a Fiscal Year basis), and hereinafter referred to as the "Required Reserve". Beginning on or before the 10th day of the month next following the delivery of the Bonds to the initial purchasers on or before the 10th day of each following month until the Required Reserve has been accumulated in said Fund, the City covenants and agrees to cause an amount to be deposited in the Reserve Fund equal to at least 1/60th of the Required Reserve.

When Additional Bonds are delivered or incurred, the Required Reserve shall be increased, if required, to an amount equal to the lesser of (i) the Average Annual Debt Service Requirements (calculated on a Fiscal Year basis) for all Bonds Similarly Secured then Outstanding, as determined on the date each series of Additional Bonds are delivered or incurred and annually following each principal payment date or redemption date for Bonds Similarly Secured, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of section 148 of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit in the Reserve Fund of all or any part thereof in cash immediately after the delivery of the then proposed Additional Bonds, or, at the option of the City, by the deposit of monthly installments, made on or before the 10th day of each month following the month of delivery of the then proposed Additional Bonds, of not less than 1/60th of the additional amount to be maintained in said Fund by reason of the issuance of the Additional Bonds then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash).

While cash and investments in the Reserve Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the initial funding of the Required Reserve or issuance of Additional Bonds as provided in the preceding paragraph), the City covenants and agrees to cure the deficiency in the Required Reserve by making monthly deposits on or before the 10th day of each month to said Fund from the Revenues in amounts equal to not less than 1/60th of the then total Required Reserve to be maintained in said Fund until the total Required Reserve then to be maintained in said Fund has been fully restored. The City further covenants and agrees that, subject only to the payments to be made to the Bond Fund, the Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Bonds.

During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the System Fund.

The City, at its option and consistent with the provisions of this Section, may fund the Reserve Fund at the Required Reserve by purchasing a Credit Facility that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the Bond Fund are not sufficient to pay the debt service requirements on the Bonds Similarly Secured. All ordinances adopted after the date hereof authorizing the issuance of Additional Bonds shall contain a provision to this effect. The City reserves the right to use Revenues of the System to fund the payment of periodic premiums on the Credit Facility and any repayment obligation incurred by the City (including interest) to the issuer of the Credit Facility, the payment of which will result in the reinstatement of such Credit Facility, prior to making payments required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Required Reserve for the Bonds Similarly Secured.

In the event a Credit Facility is issued to satisfy all or part of the City's obligation with respect to the Reserve Fund which causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve, the City may transfer such excess amount to any fund or account established for the payment of or security for the Bonds Similarly Secured (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Bond Fund.

Notwithstanding the foregoing provisions of this section, the requirement to maintain the Required Reserve in the Reserve Fund shall be suspended for such time as the Revenues for each Fiscal Year are equal to at least 1.75 times the Average Annual Debt Service Requirements. In the event that the Revenues for any Fiscal Year are less than 1.75 times the Average Annual Debt Service requirements, the City will be required to commence making the Required Reserve deposits as provided in this Section, and to continue such deposits until the Reserve Fund contains the Required Reserve or the Revenues in each of two Fiscal Years have been equal to not less than 1.75 times the Average Annual Debt Service Requirements.

SECTION 15: Deficiencies; Excess Revenues.

A. If on any occasion there shall not be sufficient Revenues of the System to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Revenues of the System, or from any other sources available for such purpose.

B. Subject to making the required deposits to the Bond Fund and the Reserve Fund in accordance with the provisions of this Ordinance, or any ordinance authorizing the issuance of Additional Bonds, the excess Revenues may be transferred to the City's general operating fund or used by the City for any lawful purpose.

SECTION 16: Payment of Bonds. While any of the Bonds are Outstanding, the City's Director of Finance (or other designated financial officer of the City) shall cause to be transferred to the Paying Agent/Registrar, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly as each installment of interest and principal of the Bonds accrues or matures or comes due by reason of redemption prior to maturity; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the last business day next preceding the date of payment for the Bonds.

SECTION 17: Security for Funds. All money on deposit in the Funds or accounts for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and money on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

SECTION 18: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in the payments to be made to the Bond Fund or Reserve Fund or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition, or obligation prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedies herein provided shall be cumulative of all other existing remedies and the specification of such remedies shall not be deemed to be exclusive.

SECTION 19: Notices to Holders-Waiver. Wherever this Ordinance provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States mail, first-class postage prepaid, to the address of each Holder as it appears in the Security Register at the close of business on the business day next preceding the mailing of such notice.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Bonds or Holders. Where this Ordinance provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 20: Cancellation. All Bonds surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly canceled by it and, if surrendered to the City, shall be delivered to the Paying Agent/Registrar and, if not already canceled, shall be promptly canceled by the Paying Agent/Registrar. The City may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the City may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Paying Agent/Registrar. All canceled Bonds held by the Paying Agent/Registrar shall be destroyed as directed by the City.

SECTION 21: Mutilated -Destroyed -Lost and Stolen Bonds. If (i) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the City and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (ii) there is delivered to the City and the Paying Agent/Registrar such security or indemnity as may be required to save each of them harmless, then, in the absence of notice to the City or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the City shall execute and, upon the City's request, the Paying Agent/Registrar shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same Stated Maturity and interest rate and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost, or stolen Bond has become or is about to become due and payable, the City in its discretion may, instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond, or payment in lieu thereof, under this Section, the City may require payment by the Holder of a sum sufficient to cover any tax or other governmental charge imposed in relation thereto and any other expenses and charges (including attorney's fees and the fees and expenses of the Paying Agent/Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the City, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other Outstanding Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost, or stolen Bonds.

SECTION 22: Covenants to Maintain Tax-Exempt Status.

A. Provisions Concerning Federal Income Tax Exclusions. The City intends that the interest on the Bonds shall be excludable from gross income for purposes of federal income taxation pursuant to sections 103 and 141 through 150 of the Code and the applicable regulations promulgated thereunder (the "Regulations"). The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds to be includable in the gross income, as defined in section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the City covenants and agrees to comply with each requirement of Section 22, inclusive; provided, however, that the City shall not be required to comply with any particular requirement of Section 22, inclusive, if the City has received an opinion of nationally recognized bond counsel ("Counsel's Opinion") that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or if the City has received a Counsel's Opinion to the effect that compliance with some other requirement set forth in Section 22 will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such Counsel's Opinion shall constitute compliance with the corresponding requirement specified in such Sections.

B. No Private Use or Payment and No Private Loan Financing. The City shall certify, through an authorized officer, employee or agent, that, based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "private activity bonds" within the meaning of section 141 of the Code and the Regulations. The City covenants and agrees that it will make such use of the proceeds of the Bonds, including interest or other investment income derived from Bond proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Bonds will not be "private activity bonds" within the meaning of section 141 of the Code and the Regulations.

C. No Federal Guaranty. The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and the Regulations, except as permitted by section 149(b)(3) of the Code and the Regulations.

D. Bonds are not Hedge Bonds. The City covenants and agrees not to take any action, or knowingly omit to take any action, and has not knowingly omitted and will not knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Bonds to be "hedge bonds" within the meaning of section 149(g) of the Code and the Regulations.

E. No Arbitrage Covenant. The City shall certify, through an authorized officer, employee or agent, that, based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, the City will reasonably expect that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of section 148(a) of the Code and the Regulations.

Moreover, the City covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from Bond proceeds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and the Regulations.

F. Arbitrage Rebate. If the City does not qualify for an exception to the requirements of Section 148(f) of the Code, the City will take all necessary steps to comply with the requirement that certain amounts earned by the City on the investment of the "gross proceeds" of the Bonds (within the meaning of section 148(f)(6)(B) of the Code) be rebated to the federal government. Specifically, the City will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the City allocable to other bond issue of the City or moneys which do not represent gross proceeds of any bonds of the City, (ii) calculate at such times as are required by the Regulations, the amount earned from the investment of the gross proceeds of the Bonds which is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds or on such other dates as may be permitted under the Regulations, all amounts required to be rebated to the federal government. Further, the City will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

G. Information Reporting. The City covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and the Regulations.

H. Continuing Obligation. Notwithstanding any other provision of this Ordinance, the City's obligations under the covenants and provisions of Section 22, inclusive, shall survive the defeasance and discharge of the Bonds.

SECTION 23: Investments. Funds held in any Fund or account created, established, or maintained pursuant to this Ordinance, at the option of the City, shall be invested as permitted by the provisions of the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or any other law, and secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, including investments held in book-entry form, in securities including, but not limited to, direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage Association, or Federal Housing Association; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund or account will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of any Additional Bonds. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14, be credited to and deposited in the System Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds.

SECTION 24: Issuance of Additional Bonds. Subject to the provisions hereinafter appearing as to conditions precedent which must be satisfied, the City reserves the right to issue, from time to time as needed, Additional Bonds for any authorized purpose, including the issuance of refunding bonds. Such Additional Bonds may be issued in such form and manner as now or hereafter authorized by the laws of the State of Texas for the issuance of evidences of indebtedness or other instruments, and should new methods or financing techniques be developed that differ from those now available and in normal use, the City reserves the right to employ the same in its financing arrangements provided only that the following conditions precedent for the authorization and issuance of the same are satisfied, to wit:

(1) The Director of Finance of the City or the City Manager shall have executed a certificate stating (a) that, to the best of his/her knowledge and belief, the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) payments into all special Funds maintained for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Revenues of the System have been made and that the amounts on deposit in such special Funds equal or exceed the amounts then required to be on deposit therein or (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency.

(2) The Additional Bonds shall be scheduled to mature or be payable as to principal on February 1 or August 1 (or both) in each year the same are to be outstanding or during the term thereof.

(3) The City has secured a certificate of the City Manager or the Director of Finance of the City to the effect that, according to the books and records of the City, the Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 18 months, immediately preceding the date of issuance of the Additional Bonds (the date of issuance being the date of initial delivery of all or a portion of the Additional Bonds to the initial purchasers) are at least equal to 1.25 times the Average Annual Debt Service Requirements for all Outstanding Bonds Similarly Secured after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Revenues, the Director of Finance or City Manager may take into consideration a change in the charges for services afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Revenues are determined and, for purposes of satisfying the above Revenues test, make a pro forma determination of the Revenues of the System for the period of time covered by his/her certification based on such change in charges being in effect for the entire period covered by the certificate.

SECTION 25: Refunding Bonds. The City reserves the right to issue refunding bonds to refund all or any part of the Bonds Similarly Secured (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all such Bonds Similarly Secured then outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Bonds) set forth in subparagraph (3) of Section 24 hereof shall be satisfied and the certificate of the Accountant required in subparagraph (3) shall give effect to the Debt Service Requirements of the proposed refunding bonds (and shall not give effect to the Debt Service Requirements of the Bonds Similarly Secured being refunded following their cancellation or provision being made for their payment).

SECTION 26: Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the System, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State of Texas.

SECTION 27: Insurance. In regard to the operations and properties of the System, the City also agrees to carry and maintain liability and property damage insurance of the kind and in the amounts customarily carried by municipal corporations in Texas on such kind of properties; provided, however, the City in lieu of and/or in combination with carrying such insurance may self-insure against such perils and risks by establishing self-insurance reserves. Annually each year not later than the end of each Fiscal Year, the City shall prepare or cause to be prepared by a person competent and knowledgeable in such matters a written evaluation of the adequacy of such self-insurance and/or insurance coverage and of any recommended changes in regard to the City's insurance/self-insurance policies, practices and procedures.

SECTION 28: Sale or Lease of Properties. The City, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property of the System which is obsolete, damaged or worn out or otherwise unsuitable. The proceeds of any sale of properties of the System shall be deposited in the System Fund.

SECTION 29: Records and Accounts. The City hereby covenants and agrees that while any Bonds remain Outstanding, it will keep and maintain separate and complete records and accounts pertaining to the receipt and disbursement of Revenues of the System in accordance with generally accepted accounting principles, as well as an inventory or list of System properties. The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto and the inventory of System properties. The City further agrees that annually an audit of the books and accounts of the System shall be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountant, shall particularly include the following:

(1) A statement of the receipts and disbursements of the System for such Fiscal Year.

(2) A balance sheet for the System as of the end of such Fiscal Year.

(3) The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Additional Bonds and his/her recommendations for any changes or improvements in the operations, records and accounts of the System.

Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, and, upon request, to the initial purchasers of the Bonds and subsequent Holders of 15% or more in principal amount of the Bonds. Such required annual audit of the financial records and accounts of the City shall be completed, insofar as possible, within 120 days following the close of each Fiscal Year and may be a part of the annual audit made of all City records and accounts.

SECTION 30: Special Covenants. The City further covenants and agrees by and through this Ordinance as follows:

(1) It has the lawful power to pledge the Revenues of the System to the payment of the Bonds to the extent provided herein and has lawfully exercised said power under the Constitution and laws of the State of Texas, including the Act, and that the Bonds issued hereunder, together with the Additional Bonds, shall be ratably secured in such manner that no one bond shall have preference over any other bond of said issues.

(2) The Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the City or the System, save and except for the Bonds.

(3) To exercise and pursue with due diligence available remedies provided by law for the collection of delinquent drainage charges, including the power under Section 402.050 of the Act to discontinue all utility services, particularly water and sewer services provided by the City to a user of benefitted property who is delinquent in the payment of drainage charges.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION 31: Special Obligations. The Bonds are special obligations of the City payable from the pledged Revenues and the Holders thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

SECTION 32: Satisfaction of Obligation of City. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the lien on and pledge of the Revenues of the System under this Ordinance and all other obligations of the City to the Holders shall thereupon cease, terminate, and become void and be discharged and satisfied.

Bonds or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, and/or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The City covenants that no deposit of money or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as “arbitrage bonds” within the meaning of Section 148 of the Code.

Any money so deposited with the Paying Agent/Registrar, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such money has been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date of the Bonds, such money was deposited and is held in trust to pay shall upon the request of the City be remitted to the City against a written receipt therefor, subject to the unclaimed property laws of the State of Texas.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified in subsection (i) or (ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the City expressly reserves the right to call the defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

SECTION 33: Ordinance a Contract - Amendments - Outstanding Bonds. The City acknowledges that the covenants and obligations of the City herein contained are a material inducement to the purchase of the Bonds. This Ordinance shall constitute a contract with the Holders from time to time, be binding on the City, and shall not be amended or repealed by the City while any Bond remains Outstanding except as permitted in this Section. The City, may, without the consent of or notice to any Holders, from time to time and at any time, amend this Ordinance in any manner not detrimental to the interests of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein and to provide additional security for the payment of the Bonds Similarly Secured. In addition, the City may, with the written consent from the owners holding a majority in aggregate principal amount of the Bonds Similarly Secured then Outstanding (excluding Bonds Similarly Secured acquired by or held for the account of the City) affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the written consent of all Holders of Bonds then Outstanding, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds or Bonds Similarly Secured, as the case may be, required to be held for consent to any such amendment, addition, or rescission.

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APPENDIX C

SELECTED PORTIONS OF THE CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003.

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CITY OF SAN ANTONIO

P.O. BOX 839966
SAN ANTONIO, TEXAS 78283-3966

March 1, 2004

To the Honorable Mayor and City Council:

It is my pleasure to present the City of San Antonio's (City) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2003. Through our dedication and commitment to excellence, the City maintained its bond ratings with the nationally recognized rating agencies: Fitch, Inc. at AA+, Standard & Poor's Public Finance Ratings Services, a division of McGraw-Hill Companies, Inc., at AA+, and Moody's Investors Service, Inc. at Aa2. The ratings reflect strong financial management and position with continued tax base growth for the foreseeable future.

This report is prepared and presented by the City's Finance Department. Accordingly, the responsibility for the accuracy, completeness and fairness of the data and presentation, including all disclosures, rests with the management of the City. The public accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA, have audited the financial statements contained herein. As reflected in the independent auditors' report, the City's financial statements are presented fairly in all material respects.

The CAFR is presented in three sections: introductory, financial, and statistical.

- The introductory section contains the transmittal letter, a copy of the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, and a list of principal officials.
- The financial section includes the independent auditors' report, Management's Discussion and Analysis (MD&A), the basic financial statements, which consist of government-wide and fund financial statements and notes to the financial statements, other required supplementary information other than MD&A, and other supplementary information.
- The statistical section consists of selected financial and demographic information presented on a multi-year basis.

In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133, and the State of Texas Single Audit Circular. The independent auditors' report on the basic financial statements, MD&A (required supplementary information), required disclosures and schedules are included in the financial section of this CAFR. Required reports and schedules mandated by the Single Audit Act Amendments of 1996, OMB Circular A-133, and the State of Texas Single Audit Circular are in separate documents. As in the past, the City will prepare and submit recommendations on any single audit findings of noncompliance with applicable regulations for corrective action in order to achieve compliance in the future.

As noted above, included in the financial section of the CAFR is MD&A, which presents a narrative introduction, overview, and analysis of the basic financial statements. This transmittal letter complements the MD&A and should be read in conjunction with it. The City of San Antonio's MD&A can be found immediately following the report of the independent auditors.

THE REPORTING ENTITY AND CITY SERVICES

Reporting Entity

The City of San Antonio is a home rule city that was incorporated in 1837 and chartered in 1951. It is structured as a Council-Manager form of government with a Mayor and ten Council Members each serving two-year terms, limited to two consecutive terms. San Antonio is located in South Central Texas, approximately seventy-five miles south of the state capital of Austin and serves as the county seat for Bexar County. As of September 30, 2003, the City's geographic area was approximately 505.86 square miles. The United States Census Bureau cites the City as the third largest city in the state of Texas and ninth largest city in the country. The estimated population grew from 1,241,100 in fiscal year 2002 to 1,262,800 in fiscal year 2003, an increase of 1.75%.

Pursuant to the reporting standards contained in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Reporting Entity", other related entities are included in the CAFR as blended or discretely presented component units. Blended component units are those entities that are considered as part of the City's operations but are legally separate entities. Those entities are the City of San Antonio Health Facilities Development Corporation, the City of San Antonio Industrial Development Authority, the San Antonio Fire and Police Pension Fund, the San Antonio Fire and Police Retiree Health Care Fund, the City of San Antonio Texas Municipal Facilities Corporation, and the City of San Antonio Texas Starbright Industrial Development Corporation.

Entities that require discrete presentation are the San Antonio Development Agency (SADA), the City of San Antonio Education Facilities Corporation (SAEFC), the Greater Kelly Development Authority (GKDA), the San Antonio Housing Trust Foundation, Inc. (SAHTF), the San Antonio Local Development Company, Inc. (SALDC), Brooks Development Authority (BDA), the San Antonio Water System (SAWS) and City Public Service (CPS). SAWS and CPS are independently managed, municipally owned utility systems that operate under quasi-independent boards of trustees.

For additional details on each of these entities and the basis for their respective presentation in our financial report, please refer to the Financial Section, Footnote No. 1, entitled "Reporting Entity".

Services

The City provides a vast array of municipal services. These services include but are not limited to fire and police protection, street and sidewalk maintenance, libraries, parks, and solid waste disposal. In addition, the City maintains preventive health services, and facilitates economic and neighborhood development. These services are funded from various sources, which include ad valorem taxes, hotel/motel taxes, sales taxes, grants, user fees, revenues from municipally owned utilities, and bond proceeds.

<u>City Public Service (CPS)</u> is one of the largest municipally owned utilities in the country. It provides electric and gas services to the greater San Antonio area. CPS operations and debt service requirements for capital improvements are funded by revenue derived from charges to its customers. The City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. In this report, CPS is included as a major discretely presented component unit. CPS is governed by a Board of Trustees, which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. Additional information on CPS is discussed in the section "Infrastructure Development."

<u>San Antonio Water System (SAWS)</u> provides water, wastewater, chilled water, and steam and reuse water services to the San Antonio area. SAWS is a City owned, separate consolidated entity that addresses water related issues in a coordinated and unified manner. Revenues from its customers fund SAWS' operations, capital improvements, and related debt service requirements. The City Charter requires that the rates for user charges, board appointments, sale of assets, and bond issuances be approved by the City Council. SAWS is governed by a Board of Trustees that includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. Additional information on SAWS is discussed in the section "Infrastructure Development."

Services (Continued)

The San Antonio Development Agency's (SADA) mission is to focus on housing with emphasis on activities inside Loop 410 while continuing the implementation of the City's Urban Renewal Program. It may designate for urban renewal such areas as it deems advisable, subject to approval by the City Council and the federal agency that administers the overall program. A majority of SADA's funding is provided by the City as pass-through grants. The board of SADA is composed of seven members appointed by the City Council.

The City of San Antonio Education Facilities Corporation (SAEFC), formerly the San Antonio Higher Education Authority, was established in accordance with State law for the purpose of aiding non-profit institutions of higher education in providing educational and dormitory facilities. This corporation is authorized to issue revenue bonds for the purposes previously mentioned, but said bonds are not obligations of the City. An eleven member Board of Directors appointed by the City Council governs the SAEFC for two-year terms.

The Greater Kelly Development Authority (GKDA) is charged with the task of all issues related to the closure, conversion, redevelopment, and future use of Kelly Air Force Base. The GKDA is also responsible for reviewing all options related to the most appropriate uses of the property on the base and surrounding areas. An eleven member Board of Directors appointed by the City Council governs the GKDA.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) was organized for the purposes of supporting charitable, educational and scientific undertakings, and to provide housing for low and moderate-income families. The SAHTF is also responsible for the administration and operations of the City's Housing Trust Fund, established for the same purpose noted above. An eleven member Board of Directors appointed by the City Council governs the SAHTF.

The San Antonio Local Development Company, Inc. (SALDC) was established in 1978 to help small businesses in South Central Texas realize business growth and job creation by facilitating access to a diverse package of intermediate and long-term loans. The SALDC administers the following loan programs: Small Business Administration (SBA) 504 Loan Program, SBA Microloan Program, Economic Development Administration (EDA) Revolving Loan Fund (RLF), Inner City Loan Program and the Housing and Urban Development (HUD) Enterprise Community Loan Program. The City Council appoints thirty-three Trustees to oversee SALDC, from which eleven members serve as the Board of Directors and govern the activities of the corporation.

Brooks Development Authority (BDA) was designed to improve mission effectiveness, reduce the cost of providing quality installation support, and promote economic development on Brooks Air Force Base and in the surrounding community. Dedicated funds provide basic municipal services at the base while continuing to develop BDA as a technology and business park. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms.

ECONOMIC OVERVIEW

As a community, San Antonio has positioned itself for long-term growth and prosperity by successfully following a strategy to diversify its economy and improve quality-of-life for all citizens. City government has played an integral part by implementing "A Strategic Plan for Enhanced Economic Development" through the collaborative efforts of San Antonio, Inc., a group of economic development organizations within San Antonio. Furthermore, the City is undertaking on-going infrastructure improvements, neighborhood revitalization, and workforce development initiatives, as well as providing incentive, assistance and attraction programs that are geared to businesses of all sizes. Both government and citizens are working toward increasing the caliber of educational and economic opportunities, expanding arts and leisure choices, revitalizing older neighborhoods, and planning for overall growth in San Antonio. As a result of the North American Free Trade Agreement (NAFTA), San Antonio has been able to capitalize on international trade opportunities by becoming a distribution point and center for companies doing business in Mexico. San Antonio is the closest major U.S. city to Mexico's biggest markets and enjoys close cultural and business ties to that nation. San Antonio's leading industries include

biomedical research and health services, international trade and distribution, information technology and security, telecommunications, tourism, financial services, and the military.

Employment Sectors

The nonagricultural employment sectors distribution for the San Antonio metropolitan area as of September 2003, according to statistics provided by the Texas Workforce Commission, is as follows:

Industry Sector	Percentage of Total Employment	Jobs Gained/(Lost) (9/02 to 9/03)	% Change (9/02 to 9/03)
Mining	0.3%	(200)	(9.1%)
Construction	5.6%	600	1.4%
Manufacturing	6.1%	(1,200)	(2.7%)
Trade, Transportation, Utilities	18.1%	1,900	1.4%
Information/Telecommunications	3.1%	(700)	(3.1%)
Finance, Insurance, & Real Estate	8.1%	1,200	2.0%
Prof./Business Services	11.8%	1,000	1.1%
Education and Health Care Services	13.4%	3,300	3.3%
Leisure and Hospitability	11.3%	2,300	2.8%
Other Services	3.8%	300	1.0%
Government	18.4%	1,500	1.1%
Total	100.0%	10,000	

The San Antonio Metropolitan Statistical Area included over 803,000 jobs, with 694,000 jobs occurring in Bexar County. The area's largest employment sectors are Government, Retail and Wholesale Trade, and Health Care, which together comprise about 52% of the area employment. The largest growth in employment came in the Education and Health Care sector with a gain of 3,300 jobs (or 3.3% annual growth).

The City's health care sector provides services through its medical, research, education, and development facilities. The City's biomedical industry continues to dominate as the largest industry segment in the San Antonio economy. According to a study distributed by The Greater San Antonio Chamber of Commerce, this industry had a total economic impact of $11.5 billion in 2001. This industry employs more than 98,000 with an annual payroll of $3.4 billion. Between 1990 and 1999, the economic impact of the health care industry nearly doubled (97.2% increase). Additionally, employees in the health care sector earn more than the San Antonio average wage.

San Antonio is unique because its research institutions have a strong array of expertise in basic and applied instrumentation, pharmacology, diabetes, cancer therapy, virology, sports medicine, transplant medicine, geriatric medicine, dental medicine, specialized medical instruments, and information security technologies. These strengths provide San Antonio with a rich collection of world-class research facilities.

Some of the biomedical assets that the City possesses are: the Air Force Center for Environmental Excellence (AFCEE), BioMedical Enterprises, Biomedical Development Corporation, BioNumerik, Brooke Army Medical Center (BAMC), Brooks City-Base, the Cancer Therapy and Research Center (CTRC), Conceptual Mindworks, Inc, DPT Laboratories, ILEX Oncology, Inc., Incell Corporation, KARTA Technologies, Lipitek International, Mission Pharmacol, Probetex, OsteoBiologics, Research Dynamics, Inc., Southwest Foundation for Biomedical Research (SFBR), Southwest Oncology Group, Southwest Research Institute (SwRI), TEKSA Innovations, Texas Blood and Tissue Center, Texas Research Park Foundation, the University of Texas at San Antonio (UTSA),

Employment Sectors (Continued)

University Hospital, University of Texas Health Science Center (UTHSC), USAF School of Aerospace Medicine, U.S. Army Institute of Surgical Research, U.S. Army Medical Department Center and School, and USAF Wilford Hall Medical Center.

The University of Texas at San Antonio (UTSA) is adding two new significant assets to this impressive list of biomedical assets. UTSA is now operating a bioprocessing facility at Brooks City-Base that will house labs containing two or three fermenters ranging from about 40 liters to possibly 350 liters, a purification/downstream processing area, a cell culture area, a 2,400 square foot common lab with smaller fermenters for training and research, and an analytical lab.

UTSA is constructing a new $83 million Biotechnology, Science and Engineering building. The facility will consist of 227,000 square feet for lecture halls; research and teaching laboratories; and seminar, conference, and classrooms to accommodate students in the College of Sciences and Engineering. The facility will also be home to the new doctoral degree programs in cell and molecular biology, computational biosciences, and bioengineering. The completion and eventual operation of the facilities will be vital to the continued development of the health and biotechnology industries in San Antonio.

Additionally, San Antonio has three major military hospitals, which have positively impacted the City for decades. The United States Air Force's largest medical facility, Wilford Hall Medical Center (WHMC), is an acute care facility. WHMC provides complete medical care to military healthcare beneficiaries in the south central United States and specialized care to patients from all over the world. WHMC contains the only Eye Bank within the Department of Defense and operates the only military programs for liver transplantation and allogenic bone marrow transplantation. The Brooke Army Medical Center (BAMC) is an ultra modern and state-of-the-art acute care facility that provides trauma care and graduate medical education. It includes the world-renowned Institute of Surgical Research Burn Center. Both WHMC and BAMC support the surrounding local communities by participating fully in the trauma and emergency medical care of the San Antonio and South Texas civilian communities. The Audie L. Murphy Memorial Veterans Hospital is an acute care facility and supports a nursing home, the Spinal Cord Injury Center, an ambulatory care program, and The Audie L. Murphy Research Services, which is dedicated to medical investigations. It serves forty-one counties and a veteran population of 300,000 throughout South Texas.

Yet another significant industry within San Antonio is the information technology and security industry. According to a recent study of the economic impact on San Antonio that was commissioned by the Greater San Antonio Chamber of Commerce, this industry employs 11,475 people with an annual payroll of $500 million and has an economic impact of $3.4 billion. With organizations such as the Air Intelligence Agency and the Center for Infrastructure Assurance and Security at the University of Texas at San Antonio, the city has a reputation for excellence in information security.

Past terrorist events resulted in unforeseen national defense strategies. The nation is faced with having to protect its citizens from the direct effects of biological warfare. In addition, a more concentrated effort to mitigate or prevent biological terrorism has been generated in the information security industries. As a result of San Antonio's rich biosciences and information technology industries, the City has positioned itself to surface as the world's foremost Homeland Security Solutions City. To achieve this goal, the Southwest Enterprise for Regional Preparedness (SERP) has been formed and is leading the collaborative efforts among the numerous organizations within San Antonio with skills and expertise in homeland security. The SERP has initiated several innovative projects that will surely achieve the goal of making San Antonio the Homeland Security Solutions City. More importantly, these efforts will make substantial contributions to the security of the nation's homeland and play a pivotal role in building upon the City's designation as one of the top two most prepared cities in the country.

The hospitality industry represents another major component of the Services sector. San Antonio's natural, historic, cultural and recreational attractions have long made it one of the top vacation and convention destinations in the country. This has resulted in an increase in tourism activity, economic impact and employment

Employment Sectors (Continued)

opportunities related to the hospitality industry. The City's proactive management practices and marketing efforts resulted in the Convention & Visitors Bureau booking approximately 679 conventions in fiscal year 2003, with 711,216 associated room nights and an estimated economic impact of $383.8 million. The San Antonio Convention & Visitors Bureau (SACVB) has booked approximately 2.74 million room nights from November 2002 through 2022.

The military continues to represent a principal component of the San Antonio economy. As of September 30, 2002, the military employed approximately 73,189 military, civilian and part-time guard and reserve personnel with an estimated direct economic impact of about $4.8 billion. Three major active installations comprise the military sector: Lackland Air Force Base, Randolph Air Force Base, and U.S. Fort Sam Houston. In addition, Brooks Air Force Base property was conveyed to the Brooks Development Authority (appointed by City Council) on July 22, 2002, with the resident military missions remaining as tenants in the newly established Brooks City-Base Technology and Business Center.

The military presence within San Antonio was further enhanced with the relocation of US Army South to Ft. Sam Houston in September 2003. The relocation of this prestigious corporate headquarters organization to the City has added approximately 500 jobs with an estimated annual payroll exceeding $42 million and an annual economic impact of $200 million.

San Antonio's stature as a superb location for corporate relocations is growing. The City has attracted some major business enterprises to locate their operations in the City. Toyota Motor Manufacturing North America, Inc., has entered into an agreement with the City to invest $400 million in an automotive manufacturing plant that will produce 150,000 Tundra trucks per year and employ 1,800 employees. Construction commenced in 2003 with production occurring in 2006.

Additionally, Maxim Integrated Products decided to expand its operations to San Antonio through its purchase of the Philips facility in Westover Hills. The City has also entered into an agreement with a large developer to develop a major area in San Antonio to include a Professional Golf Association (PGA) Resort with two golf courses, the construction of a major hotel, and construction of residential homes. The development area is in the Northeast part of the San Antonio outside of the city limits but within the Extraterritorial Jurisdiction Area. This operation covers approximately 2,597.6 acres of land.

United Services Automobile Association (USAA), a leading insurance agency, continues to be the City's largest private sector employer. Clear Channel Communications, Inc., also headquartered in San Antonio, is a global leader in the out-of-home advertising industry with radio and television stations, and other entertainment venues in forty countries around the world. New headquarters have also been built for San Antonio's energy company, the Valero Energy Corporation. Clarke American Checks, the third largest producer of checks and financial forms in the country with headquarters in San Antonio, expanded its local presence in 1999 with the addition of a major customer service center.

Business Climate and Outlook

San Antonio's healthy economy and positive business climate are enhanced by elements key to continued economic growth, such as an advanced telecommunications system, significant recent accomplishments in the area of higher education, and strong workforce development programs. Also enhancing San Antonio's business appeal is the high quality-of-life the City offers and a cost-of-living that is well below the national average. San Antonians enjoy first-rate medical services, a convenient and efficient airport, an excellent highway system, mild weather, and superb recreation choices, including championship golf courses, theme parks, historical attractions, museums, professional sporting attractions and a lively performing arts environment.

The City's Economic Development Department (EDD), in coordination with the private non-profit San Antonio Economic Development Foundation, continues to attract major corporations to the area and help local businesses

Business Climate and Outlook (Continued)

expand. Although the nation's economy experienced a downturn in 2003, job growth continued in San Antonio with approximately 3,575 new jobs created through economic development programs.

The Heavy Industry Development Division of the City's Economic Development Department continues to focus on working with the Greater Kelly Development Authority in the successful redevelopment of KellyUSA, formerly Kelly Air Force Base, which officially closed on July 13, 2001. EDD is also working with the Brooks Development Authority to make Brooks City-Base an economic success. In addition, EDD is working with Fort Sam Houston to explore ways that the City can help this local installation become more cost efficient, reduce infrastructure support costs, preserve jobs, and enhance economic development opportunities.

KellyUSA

On July 13, 2001, Kelly Air Force Base ("Kelly AFB") officially closed and the land and facilities were transferred to GKDA. The new business park, known as KellyUSA, is focused on becoming the Port of San Antonio by: (1) establishing international air cargo operations; (2) developing a Kelly rail port for direct international rail operations including inland port distribution with the Port of Corpus Christi; (3) expanding aviation maintenance, repair and overhaul (MRO) operations into a renowned international center of excellence for MRO. KellyUSA assets include multi-modal infrastructure, including an 11,400-foot runway for commercial air operations valued at $1.8 billion.

To further the redevelopment goals, GKDA has completed over $191 million in new construction and facility upgrades over the past two years including a new 123,000 square foot hangar for Boeing and a new office building, which is currently leased at 94% of capacity. In addition, GKDA has planned a $108.6 million capital improvement program for the next five years, including the demolishing of 5 million square feet in unusable facilities.

As of January 2004, redevelopment efforts have resulted in the retention of 7,400 military jobs and the creation of about 5,200 new commercial jobs. GKDA has also executed leases totaling approximately 8 million square feet of the space with 74 tenants such as Boeing, Lockheed-Martin, Chromalloy, Standard Aero, General Dynamics, General Electric, and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for their continued use. In 2004, GKDA is beginning Phase II New Facility Development at KellyUSA that encompasses $364 million in capital projects financed by City, State, Federal, and private sector funds. GKDA projects that Phase II will generate another 6,400 jobs and increase KellyUSA's economic impact on the community to $4.3 billion annually.

Brooks City-Base

Brooks City-Base is a collaborative effort between the Air Force and the City designed to retain the Air Force missions and jobs at Brooks AFB, improve Air Force mission effectiveness, assist the Air Force in reducing its support operating costs, and promote and enhance economic development on Brooks AFB and in the surrounding community. Both the City and the Air Force are partnering to utilize City incentives and existing Brooks AFB resources to create the Brooks Technology & Business Park, a facility that will foster the development of key targeted industry sectors, such as health services and biotechnology. Brooks Technology & Business Park was officially established on July 22, 2002, with the transfer of the 1,310 acres of land and improvements comprising Brooks AFB to the City Council-established organization, Brooks Development Authority ("BDA"), with the Air Force becoming Brooks Technology & Business Park's anchor tenant and leasing back additional facilities, as necessary, to perform its missions. The City is now providing municipal services to Brooks Technology & Business Park and has been providing fire and police services thereto since October 2001.

Base electric, gas, and water utilities have been transferred by the BDA to the City-owned utilities, CPS and SAWS. The BDA is also contracting with Grubb & Ellis, a national real estate developer and property management firm, to manage Brooks Technology & Business Park facilities.

Business Climate and Outlook (Continued)

Fort Sam Houston

Fort Sam Houston has also initiated leasing activities to reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the United States Army (the "Army") entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. (FSHRP), for the redevelopment of the former Brooke Army Medical Center (BAMC) and two other buildings at Fort Sam Houston. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, have been vacant for some time and are presently in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the Army to redevelop and lease these three properties to commercial tenants. In September 2003, the Army relocated U.S. Army South from Puerto Rico to Fort Sam Houston, bringing approximately 500 new jobs to San Antonio with an annual economic impact of approximately $200 million. To facilitate this relocation, the Army negotiated a lease with the FSHRP to locate U.S. Army South and the Southwest Region Installation Management Agency in the old BAMC by summer 2004.

The continued success of this unique public-private partnership at Fort Sam Houston is critical to assisting the Army in reducing infrastructure support costs, preserving historical assets, promoting economic development opportunities, and generating net cash flow for both the Army and FSHRP. This project supports the City's economic development strategy to promote development in targeted areas of the City, leverage military installation economic assets to create jobs, and assist our military installations in reducing base support operating costs. The Army intends to extend the public-private partnership initiative to include other properties at Fort Sam Houston currently available for redevelopment.

Base Realignment and Closure (BRAC 2005)

In 2005, another round of military base realignment and closures (BRAC) is scheduled. The community has been proactive in strengthening the value of its military installations through unique initiatives like the Brooks City-Base project and the Fort Sam leasing project. To prepare for BRAC 2005, the City of San Antonio in partnership with the Greater San Antonio Chamber of Commerce and Bexar County, has established the San Antonio Military Missions (SAMM) Task Force. In November 2003, the SAMM Task Force hired an Executive Director and staff to begin developing and implementing a strategy for BRAC 2005 focused on promoting the military value of the community's military assets.

San Antonio Technology Accelerator Initiative (SATAI)

SATAI is a targeted economic development initiative focused on developing an advanced technology economy in the San Antonio region. SATAI's mission is to accelerate the regional technological economy through providing hands-on development of advanced technology start-up companies and assisting established companies in accessing tech-based solutions through Enterprise Services. One of the largest SATAI projects is the coordination of several homeland security initiatives through its leadership of the Southwest Enterprise for Regional Preparedness. SATAI's efforts in this area will lead to several state of the art technologies that will be commercialized through new start-up technology companies.

SATAI has been very successful in becoming a key component in the development of San Antonio's advanced technology economy. For example, SATAI helps companies pursuing venture capital funding prepare for venture capitalists presentation. Statistics indicate that companies completing this preparation program have a 50% chance of receiving funding. Conversely, companies that do not complete this program have a 1-5% chance of receiving funding from venture capitalists. In 2003, SATAI played an integral role in San Antonio companies receiving over $13 million in venture capital and angel funding. SATAI has also been very successful in attracting the interest of venture capital firms throughout the country to participate in the San Antonio investment market. This has filled a huge void in the community's efforts to develop the advanced technology economy.

Aerospace Industry Development

This industry provides over 8,200 jobs, with employees earning annual wages totaling over $320 million. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include San Antonio International Airport, Stinson Municipal Airport, KellyUSA, Randolph AFB and Lackland AFB, and training

Business Climate and Outlook (Continued)

Aerospace Industry Development (Continued)

institutions. Many of the major aerospace industry participants have significant operations in San Antonio, such as Boeing, Lockheed Martin, General Electric, Pratt & Whitney, Raytheon, Cessna, Southwest Airlines, FEDEX, UPS, and others. The industry in San Antonio is very diversified with continued growth in air passenger service, air cargo, maintenance repair and overhaul (MRO) and general aviation. San Antonio International Airport has added two new non-stop passenger routes to Cleveland and Guadalajara in 2003 with seasonal nonstop flights to Cancun, Mexico scheduled to begin in March 2004. Stinson is at 100% occupancy rate and has a tenant waiting list for facilities. A Stinson Master Plan was approved by the City Council in October 2002 and is being implemented. At KellyUSA, the MRO business continues growing as tenants such as Boeing, Lockheed Martin and Standard Aero continue to secure long-term government contracts. KellyUSA is also working to add air cargo activity as recommended by an Air Cargo Study and Strategic Plan completed in June 2002.

To support the workforce requirements for growing and sustaining a viable aerospace industry, the community partnered to establish the Alamo Area Aerospace Academy (AAAA), which opened in August 2001. The City has funded the AAAA with $150,000 in fiscal year 2003. The inaugural class enrolled 121 high school students of which 94 graduated in May 2002. Of the 25 seniors in this class, 15 are now employed within the aerospace industry in San Antonio. There were 127 students in the fiscal year 2003 AAAA class and in September 2003 the FY 2004 class began with 130 students.

Complementing this workforce initiative is the Advanced Technology Center that opened at KellyUSA in April 2002 and provides an avionics curriculum. The City, in partnership with the Alamo Community College District, funded the $3 million facility renovation project housing the Academy.

New Business Prospects
As of the fourth quarter of 2003, the San Antonio Economic Development Foundation, Inc., reported the City had 90 active business prospects. The new businesses are categorized as business services, transportation equipment, miscellaneous manufacturing, fabricated metal products, food products, and others.

Downtown Development Projects
During 2003, the new 100-room Watermark Hotel was completed, and construction commenced on the 350-room La Quinta Inn & Suites hotel project, which will reshape the downtown skyline. The City will continue its efforts to facilitate the development of a convention headquarters hotel adjacent to the recently enlarged Henry B. Gonzales Convention Center. The Convention Center Hotel Advisory Board (CCHAB) was formed to study and recommend financing and development options for this 1,000-room hotel.

International Trade
The Directory of San Antonio Exporters and Support Organizations (available on the City's International Affairs Department website) has identified over 700 local companies that export to other nations or provide export assistance.

During 2003, the International Affairs Department worked with 77 international delegations, which included 1,526 delegates that visited San Antonio. Delegations visited from Albania, Azerbaijan, Botswana, Brazil, Canada, Canary Islands, Chad, China, Colombia, Czech Republic, France, India, Korea, Malasia, Morocco, Netherlands Antilles, Nigeria, Oman, Pakistan, Qatar, Romania, Slovenia, Spain, Switzerland, and Taiwan. The department also assisted more than 500 business clients generate over $21 million in a bilateral trade between San Antonio and Mexico.

As of December 31, 2003, the North American Development Bank (NADB) had authorized loans and grants totaling approximately $631.8 million for the development and financing of 70 infrastructure projects throughout the 10 states that comprise the U.S.-Mexico border region. These projects represent a total investment of

Business Climate and Outlook (Continued)

International Trade (Continued)

approximately $2.18 billion and are benefiting an estimated 7 million border residents in the United States and Mexico.

The NADB has been the catalyst to significant and unprecedented levels of investment in environmental infrastructure along the U.S.-Mexico border. NADB participation in these projects represents about 29 percent of the total investment in these projects. Of these, 18 have been completed, 33 are currently under construction or in various states of completion and 19 are in the design or bidding stage and are expected to start construction this year. In the area of local capacity building, the NADB to date has authorized technical assistance under its Institutional Development Program (IDP) for 151 projects in 77 communities on both sides of the border.

Infrastructure Development

The City recognizes its obligation to address infrastructure needs and to provide the services required to maintain and continuously improve the living standards of its citizens. Infrastructure, the basic framework or underlying foundation provided by government to support a community's basic needs, including its various components that ensure economic activity, safety, education, and quality of life, are discussed below.

Basic Infrastructure Components

Public Safety
In fiscal year 2003, the Police Department continued to enhance crime prevention strategies by strengthening relationships between police and the community's neighborhoods in order to proactively address property and violent crime rates. During the year, violent crimes per 100,000 population reflected a modest increase while property crimes declined slightly. The Patrol Availability Factor (PAF) goal for the year was 39.56%. The actual PAF for the year was 40.83%. The better than anticipated PAF resulted from fewer police officer vacancies during the year, the return of 30 officers called to active military duty, and a 2% reduction in calls for police service. As part of a joint City-County project funded by the Local Law Enforcement Block Grants, the Police Department established a gang detail that works with various County agencies to proactively address gang issues.

The improved Dispatch Facility, constructed in 2000 and funded with 1998 Certificates of Obligation, will accommodate the requirements for a new public radio system. Currently in the final stage of field-testing, the new radio system is scheduled to become operational in the first quarter of 2004.

The 1999 Bond Program earmarked $17.4 million for three Vision 2001 technology systems: Field Entry Reporting, Optical Disk Storage and Retrieval, and Supplementary Report Management System. This "Public Safety Integrated Technology System" will provide a comprehensive information management system to increase police officer and detective effectiveness while enhancing customer service. The system will enable officers to enter reports from the field as well as improve the filing, preparation and storage of important case information.

The Police Department currently has a contract with Open Systems Group for the development of a software base for this system. In fiscal year 2003, $3,610,127 was budgeted for this project. This fiscal year, servers were purchased to run the system and the Automated Mugshot System was upgraded. The entire system is estimated to be complete in August 2004.

1999 General Obligation Bonds totaling $3,009,000 were allocated to Police Substation Expansion Projects for North, Northwest, South, East, and West Substations. In fiscal year 2003, $1,140,000 was budgeted for the East and Northwest Substation expansion projects, which continue as scheduled. Construction of the North, South and West Substations was scheduled to be completed in December 2003. The East and Northwest Substations will be complete in March 2004.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Safety (Continued)

In fiscal year 2003, the Police Department continued to provide and improve citizens' convenient access to information and investigative services at Police Substations through enhanced data availability on the Department's Website. Police reports are available to the public at the Police Headquarters Records Office and at the four City of San Antonio Community Link Centers.

The City continues to promote and provide for its Public Safety infrastructure by allocating funding through the budget process for police, fire and Emergency Medical Service (EMS). As of September 30, 2003, Public Safety Infrastructure included 6 police stations as well as 48 fire stations which house 48 engine companies, 19 truck companies, 8 brush trucks, 8 Fire command units, 5 EMS command units, 26 full-time EMS units and up to 9 peak period units per day. In addition to the aforementioned deployment of personnel, the Fire Department staffs a Fire Station located at the San Antonio International Airport, which responds to all incidents that occur within the airport boundaries.

With regard to Fire and EMS services, fiscal year 2003 included the continued implementation of the Fire Department Master Plan, a five-year rolling plan of comprehensive improvements targeted to enhance services provided such as Emergency Management, Fire Suppression, Fire Prevention, and Emergency Medical Services. Improvements implemented include an addition of nine staff positions, the continued construction and renovation of various fire stations and the training academy, and the continuation of the fire department's First Responder program. The First Responder program is part of a Fire Department initiative to increase the useful life of the more expensive firefighting apparatus and to provide initial patient care before EMS units arrive. The department also continued to improve technology and equipment enhancement upgrades related to Laptop Mobile Data Terminals (LMDTs).

Parks and Recreation Department

As of September 30, 2003, the City's Parks and Recreation infrastructure included 192 neighborhood, community and large urban parks, numerous sports complexes, 26 recreation centers, 23 swimming pools, and other special facilities, such as the River Walk, Botanical Gardens, Tower of the Americas, Spanish Governor's Palace, Market Square, and La Villita. The total park area covers 14,509 acres. During fiscal year 2003, approximately 36 Parks and Recreation capital improvement projects were completed at a construction cost of over $7.9 million, and an additional 78 Parks and Recreation capital improvement projects were under construction, bid, or design at the end of the fiscal year.

On May 6, 2000, San Antonio voters approved the collection of an additional 1/8 cent sales and use tax aggregating up to $65 million to purchase and develop as appropriate; (a) large tracts of parkland containing sensitive natural areas over the Edwards Aquifer ($5 million), (b) linear tracts of land for greenway development along Leon Creek and Salado Creek ($20 million), and (c) a 10% operations and maintenance endowment for the Edwards Aquifer Parkland. The parks proposal was the only one of four ballot issues presented to voters on May 6, 2000 that was approved, and will be funded through a temporary 1/8 cent increase in San Antonio's sales and use tax. It is anticipated that the $65 million will be remitted to the City by July 2004.

Planning Department

Planning Department staff began the Southside Balanced Growth Initiative during the 2002 fiscal year. The focus of this initiative was an 83.6 square mile area located 7.5 miles south of downtown. An area of approximately 57 square miles was annexed for limited purposes to extend land use and health and safety regulations to the area. The primary goal of this initiative is to reverse the trend of disinvestments in the southern sector and encourage the balanced growth of San Antonio. This initiative will establish a growth policy for South San Antonio that seeks to develop the area into an integral part of the City and create an overall scenario of sustainable development. To that affect, new and progressive zoning districts were introduced and adopted by City Council.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)

Additionally, this effort seeks to achieve the goals and objectives of the 1997 Master Plan, the 2001 San Antonio Housing Master Plan, and the Community Revitalization Action Group (2000) by utilizing Smart Growth Principles. Through this initiative, the City of San Antonio will:

- Encourage the development of attractive, sustainable neighborhoods that are pedestrian-oriented and support a mix of uses
- Provide a range of quality housing options
- Protect natural resources and open space
- Support walking, cycling, and bus/rail transit alternatives to driving
- Revitalize and support existing communities
- Generate job opportunities
- Promote quality schools
- Build on existing and planned assets and employment anchors
- Attract investors and encourage development by making investing easier and profitable
- Reduce infrastructure costs by developing closer to the urban area and coordinating development infrastructure

With the advent of a Toyota Manufacturing plant in the area, the prospect for attracting and increasing the number of industrial and commercial uses will improve. Coupled with the City's initiative, attractive and progressive zoning districts provide direction and create certainty for future investors and developers in the area.

The City added two new Historic Districts, bringing the total of Historic Districts in San Antonio to twenty-one, and expanded the boundaries of two of our existing Historic Districts. A recent study of the Economic Impact of Historic Designation in San Antonio by Rutgers University showed that Historic District designation increased property values 18% over the normal inflation rate compared to neighborhoods of similar character. Currently, one additional neighborhood is in the process of designation. We have also designated thirteen new Local Landmarks.

During the past year, the Alamo Viewshed was adopted by the City Council. The Viewshed limits the height of new buildings behind the Alamo. This height limitation will forever preserve the view of clear sky behind the Alamo.

The Planning Department is also working on an architectural survey of the original thirty-six square mile city limits, which includes 62,000 buildings. The survey utilizes volunteers from neighborhoods, advocacy groups, and local schools. To date, over 6,000 properties have been surveyed and a number of potential new Local Landmarks and Historic Districts have been identified.

In accordance with the Community Building and Neighborhood Planning Program, staff undertook comprehensive planning for neighborhoods and communities. Plans, in addition to the Southside Initiative Community Plan, which was adopted in fiscal year 2003 by City Council, included the Huebner-Leon Creek Community Plan and the Westfort Neighborhood Plan Update. The Arena District/Eastside Community Plan was approved by the Planning Commission in September, and was considered by City Council in November 2003.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Planning Department (Continued)

The Neighborhood Improvement Challenge Program (NICP) provides neighborhood-based organizations the opportunity to implement small, public improvement projects in partnership with private groups. In fiscal year 2002, the NICP awarded a total of $161,696 to 107 projects ranging from landscaping, murals, park enhancements, and special topics series that include newsletter design, advertising, promotion and distribution. In fiscal year 2003, staff coordinated with neighborhood groups to finalize and implement these projects. To date, 40 Learning Fund participants attended membership drive classes and sponsored a membership recruitment event, 672 trees were planted, and 9 Project Fund projects were initiated that will be matched privately with $34,790. Although the Neighborhood Improvement Challenge Program was not funded for fiscal year 2003, carry forward funds will enable the scheduling of additional special topic series workshops.

As part of the implementation of the Community Building and Neighborhood Planning Program (CBNP), three neighborhood plan projects were initiated in 2002 and implementation efforts continued in 2003. These include the Hays Street Bridge Rehabilitation project, the Austin Highway Hazard Elimination Safety Program (HESP) and the Olmos Creek Greenway project.

The Hays Street Bridge Project was awarded $2,879,293 through the TEA 21 enhancement program in 2002. In an effort to raise funds for the City's match, the Planning Department will continue its involvement to coordinate with the citizen committees and to assist with public involvement for the project.

Through a Hazard Elimination Safety application submission for TEA 21 funds, $475,000 was awarded to the San Antonio Texas Department of Transportation (TxDOT) district for the construction of medians on Austin Highway from Eisenhauer to Rittiman. In fiscal year 2003, the Planning Department, Neighborhood Action Department and the Public Works Department coordinated the preliminary design and public involvement process with TXDOT. TXDOT has initiated the design and development of the project.

In conjunction with the adoption of the North Central Neighborhoods Community Plan, a resolution was adopted by City Council to authorize the San Antonio River Authority to work with the U.S. Army Corps of Engineers (USACE) to initiate a feasibility study of the southernmost three (3) mile section of Olmos Creek to determine if the project qualifies for Section 206 "Aquatic Ecosystem Restoration" funds. If it qualifies, this could result in additional federal funding for environmental restoration and passive hiking trails. A 35% match (cash or in-kind) would be required should the city decide to participate. A preliminary estimate by the USACE for the city's match as of October 2002 is $537,585 ($71,000 in- kind and $466,585 cash) for a total project cost of $1,535,960. In 2003, the Planning Department coordinated with the USACE, the Parks and Recreation Department and the San Antonio River Authority to develop final estimates. Voters in the 2003 Bond election approved the local match for the project.

In December 2002, the Corridor Overlay District enabling ordinance was adopted by City Council. In May 2003, the first gateway corridor, the Hill Country Corridor on IH10 West, was also adopted by City Council. Subsequently, staff initiated work on the development of the IH35 North gateway corridor. Additionally, two Neighborhood Conservation Districts (NCD) were adopted: the S. St. Mary's/South Presa NCD and the Alta Vista NCD. Staff also initiated work on the development of NCDs for the Ingram Hills and Whispering Oaks neighborhoods. Both the corridor overlay district and the neighborhood conservation district provide additional development standards to promote community character.

Library Facilities
The San Antonio Public Library System consists of a Central Library facility, 18 branches, 1 joint-use facility at the Ronald Reagan High School (a unique partnership between the City and North East Independent School District), and 1 bookmobile. The Central Library offers services seven days a week and four evenings a week.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Library Facilities (Continued)

Nine branch libraries are open seven days a week and three evenings, and nine branch libraries are open six days a week and four evenings. The public library at Ronald Reagan High School is open after school hours and evenings four days a week and on Saturday and Sunday during the day. The Library's operating schedule is designed to ensure that branch libraries throughout the city provide satisfactory library access and usage for families, students, and neighborhood residents.

Over 3.6 million people utilized the Library's collection of print and non-print resources in fiscal year 2003. Citizens borrowed 4% more materials and asked 9% more reference questions than in the prior year. Usage of the Library's website, including access to full-text electronic information databases increased 69% over the previous year. Over 149,000 citizens attended library programs designed for a variety of audiences including children, families, and adults.

In support of the City's initiative to create an educated workforce and promote a healthy business climate, the San Antonio Public Library offers information resources for small businesses in branches located throughout the City's empowerment zones. These resources were developed with the assistance of the Institute of Economic Development at the University of Texas at San Antonio, the City Economic Development Department and the Economic Development Foundation.

Airport System
The City's airport system consists of the San Antonio International Airport and the Stinson Municipal Airports, both of which are owned by the City and operated by its Department of Aviation.

San Antonio International Airport is located on approximately 2,600 acres of land that is adjacent to Loop 410 freeway and U.S. Highway 281 and eight miles north of the City's downtown business district. The International Airport consists of three runways with the main runway measuring 8,502 feet and is able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24-second level gates. Presently, domestic air carriers providing service to San Antonio include America West, American, Atlantic Southeast, Comair, Continental, Continental Express, Delta, Midwest, Northwest, Southwest, and United. Mexicana, AeroLitoral and Aeromar are Mexican airlines that provide passenger service to Mexico. The Airport Master Plan design allows for an increase from 24 to 55 gates. It is estimated that current gate facilities are being used at 80% of capacity. A variety of services are available to the traveling public furnished by approximately 245 commercial businesses, including nine rental car companies, which lease facilities at the San Antonio International Airport and Stinson Municipal Airport.

San Antonio International Airport has two designated cargo areas: the West Cargo Area, which was constructed in 1974 and refurbished in 1990, and the East Cargo Area, which was completed in 1992 and expanded in 2003. The East Cargo Area is specially designed for use by all-cargo, overnight-express carriers. Custom-built cargo facilities in the East Cargo Area are leased to Airborne Express and Federal Express, while Eagle Global Logistics (EGL) constructed a processing facility in the year 2000 and UPS is in the process of expanding its facilities. Additional land has been allocated to accommodate future growth and an expansion of facilities is currently planned. Foreign trade zones exist at both cargo areas. Enplaned and deplaned cargo for 2002 totaled 133,463 tons.

San Antonio International Airport operates and maintains approximately 6,100 parking spaces and 1,000 employee parking spaces for a total of 7,100 parking spaces. A parking study was developed in 2001 for the International Airport by AGA Consulting, Inc. The study indicated that projected peak period demand for airport

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)

parking will exceed the available supply by the end of 2006. It is estimated that 2,400 additional parking spaces will be required to satisfy projected demand over the next ten years. The City is in the process of coordinating the facility layout for the new parking improvements with the additional terminal facilities. The design contract for the parking improvements is expected to be awarded in early 2004, while construction of the new parking facilities is anticipated to start by 2005.

A comprehensive terminal renovation project was completed in 2003 to improve the quality of services provided to passengers at the San Antonio International Airport. The project, which was estimated to cost $28 million, included a completely new appearance to the building interiors and provided state of the art terminal amenities. Included in the terminal renovations was a complete redevelopment of the concessions program that provided high-quality retail and food establishments, offering a mix of regional and national brands at street prices. Concession space was expanded from 30,000 square feet to over 40,000 square feet. Through the expansion and reconfiguration of concession space, 85% of retail shops and food outlets are now at airside locations. In total, 42 new concession contracts were awarded. The new concessions program is also projected to increase revenues to the Airport from $3.2 million in fiscal year 2002 to $4.8 million in fiscal year 2004. On a per-boarding-passenger basis, concession revenue is expected to increase from $.99 in fiscal year 2003 to $1.31 for fiscal year 2004.

The Airport Revenue News' 2003 Best Concessions Poll recognized the City's Aviation Department for its new concessions program. The Airport's concession program was voted for by a panel of judges in the airport category with less than 4 million enplanements. San Antonio International tied with Norfolk International Airport for 1st place for the "Airport with the Most Innovative Services" and received 2nd place for the airport with the "Best Concessions Program Design." This award is given to airports that have the most accessible and visible concessions program to a majority of passengers, a layout that promotes a retail-friendly environment, reflects a distinctive theme, and has an overall attractive appearance.

The passage of the Aviation Security Improvement Act in November of 2001, created the Transportation Security Administration (TSA). The City's Aviation Department has worked closely with the TSA to forge a new higher level of security for the traveling public. Aviation Department staff and the airlines assisted the TSA in transitioning to fully federalized security checkpoints. The process began in September 2002 and was completed on December 31, 2002. Implementation of the new regulations included the installation of explosive detection baggage screening equipment to meet the mandated 100 percent baggage screening process on December 31, 2002. TSA employs about 500 individuals at San Antonio International Airport to meet the new federal security requirements.

The Airport's explosive detection screening equipment is currently located in the ticket lobby areas of the terminals. This was necessary in order to meet the required December 31, 2002 deadline. However, the Aviation Department is working with the TSA to relocate all baggage screening equipment behind the terminals in new baggage handling systems planned as part of the upcoming Terminal Expansion Project. The Aviation Department also utilizes three Explosive Detection Canine teams. The officers, assigned with their dogs, provide additional coverage for detection of explosive materials at the Airport in baggage pickup areas, concourses, parking, cargo and aircraft. This program is supported by the TSA with reimbursement to the Airport at $120,500. SAT's coverage is provided in addition to canine support received from San Antonio Police Department and Bexar County Sheriff's Office.

The City is planning the implementation of a ten year Capital Improvement Program (CIP) pursuant to the Master Plan for San Antonio International Airport. The CIP addresses both terminal and airfield improvements. The capital program includes the removal of the existing Terminal 2, which is over 40 years old, and the addition of two concourses with corresponding terminal space, public parking facilities, roadway improvements, and the

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Airport System (Continued)

extension and improvement of two runways, along with supporting taxiways and aircraft apron. The Airport System's overall CIP for fiscal years 2002 through 2011, which may change as circumstances require, is estimated to be $425.6 million. The CIP includes capital improvements as follows: $124.2 million for terminal related improvements, $51.8 million for parking improvements, $19 million for roadway improvements, $177.1 million for airfield improvements, $8.2 million for cargo facilities, $6.7 million for aircraft apron, $5.9 million for Stinson Airport improvements, and $32.7 million for other improvements.

The City plans to pursue a phased approach in the construction of the improvements, whereby capacity is increased to coincide with demand. The City also desires to limit, to the extent possible, the impact on airline rates and charges. The City, as the owner and operator of the Airport, has received authority to "impose and use" Passenger Facility Charges (PFC) at the $3.00 level, which became effective November 1, 2001. The Federal Aviation Administration (FAA) issued a Record of Decision approving the City's PFC application on August 29, 2001. The CIP also anticipates the approval of a Letter of Intent with the FAA for the commitment of future grants as possible funding sources for some of the planned capital improvements.

During 2003, the first steps were taken to bring the City's $426 million Capital Improvement Program to fruition. The City's consultant, Marmon Mok/Gensler, validated the 1998 Airport Master Plan and completed a programming study. This process included development of a layout of proposed additional terminal and roadway facilities needed to meet the projected passenger growth through 2015. The study also included a review and mapping of the ultimate terminal and airline gate expansion for future development as growth occurs at the Airport. Schematic designs were completed, along with the programming study, which will be used by the architectural team of 3D International/Corgan Associates, Inc., to layer in the exterior and interior structural design features in the ticketing, concourse, and bag process areas. Other architects were also selected to start the process of designing and constructing a new 3,000-space parking garage and a freight facility. The first phase of construction, which includes a new concourse to replace Terminal 2 and roadway improvements, as well as an expansion to the parking facilities, is expected to start late in 2004.

Stinson Municipal Airport, established in 1915 and named for the Stinson family, aviation pioneers, is one of the country's first municipally owned airports. During 2001, a process was initiated to develop a new Airport Master Plan for this Airport, which was completed 2002. The Master Plan provides recommendations for airfield and facility improvements needed to meet growing operation demands. The planning effort will facilitate the development of the Airport to expand its role as a general aviation reliever to the San Antonio International Airport. TxDOT accepted the Master Plan in 2002 and has recommended $16.0 million in grant funding for capital improvements over the next ten to fifteen years. The expansion of Stinson's facilities is also needed to take advantage of new, complementary business opportunities evolving with the synergy between Brooks City-Base, KellyUSA, and the Airport. A Target Industries Analysis was completed in 2003 as part of the master planning process. The study will help facilitate development of Stinson properties through the identification of industries and businesses considered to be good prospects for locating at the Stinson Municipal Airport.

Since 1998, flight operations at Stinson have increased by 143%, while Stinson has also experienced over a 100% increase in the number of based aircraft at the airport. Because of its growth, the Texas Department of Transportation Aviation Division has approved grant funds for various projects at Stinson. With Aviation Department funds, Stinson has planned to build a new facility that will give the Airport additional administrative offices, classrooms, and conference rooms to accommodate and attract new businesses. The Texas Department of Transportation Aviation Division has named Stinson Municipal Airport "2003 Reliever Airport of the Year".

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

City Public Service
City Public Service (CPS), owned by the City, provides electric and gas services to San Antonio and surrounding areas. As of December 2003, CPS owned and operated 16 electric generating units capable of producing 4,356 megawatts (MW) of power from natural gas, oil, and coal. CPS also owns 700 MW of nuclear generating capacity in the South Texas Project plus the rights to another 160 MW of wind generation, which brings the total CPS capacity to 5,216 MW. During fiscal year 2003, CPS's generation was obtained from the following sources: coal, 46%; nuclear, 27%; and natural gas, 15%. Wind energy and purchased power accounted for 12%. As the second largest municipally owned utility in the nation, CPS serves more than 604,108 electric customers throughout its 1,566 square-mile service area, and about 310,316 natural gas customers in the urban San Antonio area.

To the citizens' benefit, CPS rates are lower than any major Texas city and among the lowest in the nation. The average CPS residential gas and electric bill ranked second lowest among the 20 largest cities in the United States for the twelve months ending January 2003. CPS remitted over $204 million to the City in fiscal year 2003. Representing a steady and increasing source of revenue for the City, this return helps keep property taxes low and enhances the funding of many city services offered to residents. As of December 2003, CPS maintains a AA+ rating by Standard & Poor's, which makes CPS one of the highest rated publicly owned utilities in the nation.

San Antonio Water System
The City's waterworks system, initially acquired in 1925, was included in a consolidation in 1992 of all City owned water related utilities including water, wastewater, and water reuse systems. This consolidation created the San Antonio Water System (SAWS), which now provides water and wastewater service to San Antonio and certain surrounding areas. SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City of San Antonio and Bexar County, which totals approximately 1.4 million residents. Currently, SAWS provides water and wastewater service to 305,050 and 338,783 customers respectively, including residential, commercial, industrial and irrigation customers. SAWS has 4,229 miles of water mains in place and 5,047 miles of wastewater mains in place.

Housing and Neighborhood Development
The City's administration of housing and neighborhood development initiatives are being accomplished through programs such as the Housing Master Plan, Neighborhood Sweeps, Neighborhood Commercial Revitalization, Down Payment Assistance, Owner Occupied Rehabilitation and Reconstruction, Single-Family/Multi-Family Rental Rehabilitation, Affordable Showcase of Homes, Tax Increment Financing, and the Housing Asset Recovery Program. These Programs are managed through the Neighborhood Action Department.

In support of the Mayor and City Council's community revitalization efforts, the Neighborhood Action Department has defined a strategy for data gathering efforts to aid in the development of a comprehensive investment plan for the Community Revitalization Action Group (CRAG) target area, which encompasses the original 1940 city limit boundaries. The City Council continues to prioritize inner city revitalization efforts by targeting programs and neighborhood services provided in the CRAG target area.

Housing Asset Recovery Program
In an innovative approach to revitalization, the Neighborhood Action Department partnered with Fannie Mae in utilizing a line of credit to rehabilitate valuable housing stock and thus create affordable housing opportunities for low to moderate-income families in San Antonio. Since 2001, the Housing Asset Recovery Program (HARP) takes a non-productive, residential structure and creates a useful asset for the community. Individuals, non-profit organizations, corporations, or any owner of a single-family home, residential lot, or tract of land can donate or sell the asset to the City. Beyond the flood recovery program, in most instances, the home can remain on the existing lot and be rehabilitated on site. In other cases, such as in school expansion projects, a home may need to

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Housing Asset Recovery Program (Continued)

be relocated to another city-owned parcel of land. To finalize the HARP transaction, the City refers the "project" to Fannie Mae for rehabilitation and sale. Once the home has been renovated, a licensed real estate broker lists and sells the property on behalf of the City. Net proceeds from the sale of the home are returned to the City for reinvestment in affordable housing and to replenish the line of credit in order to acquire additional projects.

Housing Master Plan
In June 2001, the City was presented with a Housing Master Plan completed by J-QUAD & Associates, LTD, SA Research Corporation, and McConnell, Jones, Lanier and Murphy, LLP. The Master Plan is a result of recommendations found in the Community Revitalization Action Group Report and the Housing Performance Review. Both documents indicated a need for an overall plan to guide housing development in the City.

The Master Plan identifies and provides a series of recommendations for housing initiatives, processes, and comprehensive development for the City. The Master Plan also provides a baseline and understanding of current conditions found in San Antonio's housing market, as well as presents a definition of continuum of care and affordable housing. The Master Plan identifies a series of recommendations concerning the retooling of programs and processes to enable implementation of the recommendations defined in the plan. These recommendations are currently under review by the City Council Urban Affairs Committee.

Neighborhood Sweep Program
The Neighborhood Action Department coordinated and delivered 24 neighborhood sweeps during fiscal year 2002. Over the last five years, more than 100 communities have been recipients of this comprehensive service delivery program. The neighborhood sweeps represent an inclusive package of city services, such as code investigations, brush collection, street/pothole repair, graffiti removal and vacant lot abatement, that are delivered to a 55–60 block area over a period of two weeks. The program is designed to accomplish both short-term "clean-up" goals and long-term community development goals including accessing safe, decent housing, and assisting special needs populations.

Neighborhood Commercial Revitalization
The Neighborhood Commercial Revitalization (NCR) Program was created to bring renewed interest and investment to San Antonio's older commercial corridors. The NCR Program is currently working in eight target areas throughout the City. The NCR Program provides financial and technical assistance to community based non-profit organizations that undertake a full-time revitalization effort. The NCR Program is based on the MainStreet model of identifying and marketing the competitive advantages of these business districts in the hope of attracting private investment in new and existing businesses, thus creating job opportunities and enhancing the quality of life in the surrounding neighborhoods. Collectively, NCR target areas have realized more than $39.6 million in private investment and created/retained more than 1,018 jobs. During fiscal year 2003, an assessment of the NCR Program was performed to pursue alternatives for greater program success and productivity, as the participants continue to implement strategies that will support inner city revitalization. This assessment will be presented to the City Council in early Spring 2004.

Down Payment Assistance Program/Homebuyers Club Program
In fiscal year 2003, the Neighborhood Action Department provided 89 families with down payment and closing cost assistance toward their purchase of a home. The Department will continue to provide up to $8,000 for families wishing to purchase single family homes in the San Antonio area. In addition, in partnership with the San Antonio Housing Trust Foundation, the City received a $25,000 grant to provide homebuyer counseling activities and support the City's Homebuyers Club Program, which prepares families for homeownership.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Owner Occupied Rehabilitation & Reconstruction Programs
The Neighborhood Action Department administers the Owner-Occupied Rehabilitation and Reconstruction Program that provides loans and grants for rehabilitation or reconstruction of housing units for qualifying families. The Program is funded through the US Department of Housing and Urban Development, which provides Community Development Block Grant (CDBG) and HOME funds. The Department works closely with the families to determine rehabilitation and/or reconstruction needs based on assessments of the housing structure. The Department is responsible for providing oversight and monitoring of construction activities for the projects. All applicants must meet eligibility and income qualifications.

Rental Rehabilitation Program
The Neighborhood Action Department's Rental Rehabilitation Program provides funds for both single-family and multi-family rental units. It has been noted that much of the rental housing stock within the inner city is substandard and in need of rejuvenation; however, there are numerous challenges associated with ensuring revitalization such as historic integrity, environmental hazard, deferred maintenance, and elderly property owners. Funds for this program are made available through the US Department of Housing and Urban Development providing CDBG and HOME funds.

The Rental Rehabilitation Program provides loans and requires that units be made available to families earning at or below 80% of the area median income. The Housing Policy Guide amended the guidelines for this Program, maximizing the assistance provided to be no greater than 50% of the total rehabilitation costs for a project.

Tax Increment Financing
The City Council adopted new guidelines and criteria in October 2002 for the City's Tax Increment Financing (TIF) program. The public purposes of TIF projects include the redevelopment of blighted areas, construction of low and moderate-income housing, provision of employment opportunities, and improvement of the tax base. This program provides a means of presenting incentives that carry real costs by paying public improvement costs from the increased tax revenues generated by the project itself. The new guidelines were approved and provided the ability to facilitate higher standards of development for TIF projects. In May 2003, there was a City Council request to review the guidelines recently approved. The staff held numerous community and stakeholder meetings to address issues identified in the City Council request and new guidelines were adopted by the City Council in January 2004.

Neighborhood Development/Partnerships
Neighborhood Development/Partnerships are an innovative strategy being utilized to tackle inner city revitalization through private development. CDBG and HOME funds have been allocated as seed money to stimulate development in urban neighborhoods. The City released a Request for Proposals to solicit qualified developers to assist with revitalization efforts in a targeted neighborhood in Council District 4 through rehabilitation and construction of new infill housing. The groundbreaking for this project was held in 2003. This pilot program will stimulate increased activity in neighborhoods that have not seen new development in years.

Department of Community Initiatives
The Department of Community Initiatives (DCI) serves as the primary human development agency for the City. In this role, DCI coordinates community-based human investment strategies designed to strengthen families, develop human capital, and provide a community safety net. Additionally, DCI acts as a vehicle for collaboration between public and private organizations. This focused facilitation strives to leverage and maximize resources toward significantly improving the community's human development outcomes. In fiscal year 2004, DCI will

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Department of Community Initiatives (Continued)

invest almost $130 million in human development. The DCI budget supports the City's strong commitment to strengthening long-term economic viability in San Antonio through the development of human capital.

DCI supports human development efforts at all stages of life, beginning with early childhood development and continuing through adult education. DCI carries out these human development strategies primarily through early childhood education, kindergarten readiness, youth development, character skills development, college scholarships, preparation for transitional employment, long-term job training and adult literacy services, and asset building and asset protection strategies.

DCI's early childhood education goal is to provide high quality and affordable childcare in order to improve workforce participation and prepare children to enter school ready to succeed. Through Head Start, the Child Care Delivery System and local initiatives, the Department will provide childcare to over 16,000 children of low-income parents participating in workforce activities or participating in workforce development activities.

The City provides $11 million in In-Kind contributions to the Head Start program to support this early care and education goal. Additionally, the City certified almost $4.3 million in local expenditures that attracted $6.4 million in federal matching dollars to further underwrite the City's aggressive early care and education initiative.

Over the past four years, the City has drawn down proportionately more federal matching early childhood funds than any other Texas community. The Kindergarten Readiness Project, operating in 19 elementary school neighborhoods, strengthens families by empowering parents to serve as their child's first teacher. DCI continues to provide "Early On", a multi-media campaign to disseminate the Kinder Readiness guidelines. Last year, the Kinder Readiness Project trained more than 150 pre-school educators and 80% of children assessed displayed mastery of the Kinder Readiness guidelines.

The Youth Services Division addresses youth development through juvenile justice and delinquency prevention programs. By using model programs, such as the Neighborhood Conferencing Committees and Teen Court, the Division has significantly reduced the recidivism rate for those youth appearing before the Municipal Court Judge. Youth in the CASASTART Program, for example, have shown improved grades, improved attendance, and reduced contact with authorities. The school district administration has attested to an improved school environment as a result of the Division's presence on campus. More than 5,200 youth received prevention and early intervention services this year.

The Department is committed to raising the education and skill level of residents and offers coordinated and comprehensive education and training to assist youth and adults in achieving self-sufficiency. Next fiscal year we estimate that nearly 2,000 individuals who participate in DCI's education or training programs will become employed and more than 60% will be paid at or above a living wage. More than 3,600 DCI participants will enroll in higher education, skill training or long-term job training.

The San Antonio Education Partnership (SAEP) encourages students to stay in school and advance to higher education by providing advising services, college preparation activities and scholarships to students who graduate with a 95% attendance rate and 80% grade point average. Annually, SAEP serves more than 25,000 students in grades 9 – 12 at fifteen (15) participating high schools. Since the program's inception, nearly 1,500 scholarship recipients have received their Associates or Bachelor's degrees from local colleges and universities.

The Youth Opportunity (YO) Program is designed to assist inner city youth with developing the necessary skills to become contributing self-sufficient members of the community. The goal of YO is to increase the long-term employment and education of youth who reside in the City's federally designated Empowerment Zone. This goal

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Department of Community Initiatives (Continued)

is achieved through education and job training programs while providing an array of supportive services. The YO program provides follow-up support to youth for a two-year period following placement in long-term employment and or education.

DCI's Literacy Services Division offers adult education services including GED preparation, adult basic education, English as a Second Language (ESL), and computer literacy. In addition, the Department has implemented a transitional jobs component in partnership with local employers to provide comprehensive career readiness and life skills training. It is estimated that more than 500 individuals attending literacy classes this fiscal year will obtain employment. Moreover, the Division's Better Career program will expand to all seven city operated learning centers and into the community as well.

During the past two years, the Division has implemented an English Literacy – Civics Education program at two of the Learning and Leadership Development Centers. Funded with a grant from the Texas Education Agency, more than 300 participants have completed the program, which familiarizes participants with local, state and federal governmental structures to become more involved in their community.

Funded primarily through the City, Project QUEST is a workforce development initiative that provides comprehensive training opportunities primarily to adults who lack the educational, occupational, and life skills necessary to secure well paying employment. QUEST provides support for short-term training, customized, and long-term job training in the City's targeted demand occupations. Since the program's inception in 1992, QUEST has provided training opportunities to approximately 2,500 participants.

DCI continues to strengthen the Family Economic Success Program to assist low-income working families transition out of poverty into economic self-sufficiency. This program offers asset-building strategies including Volunteer Income Tax Assistance (VITA) and Individual Development Accounts (IDA). Last year, DCI operated 12 tax assistance sites and prepared more than 9,500 returns for low-income working families, which returned more than $13 million to residents of the community. DCI also serves more than 300 families through IDA. Through financial literacy instruction and matched savings accounts, working families will save for the purpose of education, homeownership, and transportation. DCI expects to enroll an additional 250 families in IDAs in fiscal year 2004.

The Community Action Division (CAD) is the designated public community action agency for City of San Antonio and Bexar County that addresses the needs of the low-income residents by improving the conditions of poverty. Services include rental, transportation, utility, food, case management, counseling, information, and referral through a variety of funding sources.

CAD programs also provide emergency housing, transitional housing, and supportive services to homeless families and individuals. Additionally, the Success and Independence Program provides long-term supportive services to low-income participants. The Fair Housing Program is responsible for enforcing City and Federal fair housing laws and other services such as comprehensive housing counseling, reverse mortgage counseling, and mortgage assistance.

DCI's Elderly and Disabled Services Division (EDSD) provides essential, safety net services to the community's most vulnerable populations. EDSD offers senior nutritional services, senior transportation services, in-home personal assistance services, and resource access to elderly programs and services. In fiscal year 2004, the nutrition program plans to expand from 56 to 65 congregate nutrition sites and will serve approximately 990,000 meals. In conjunction with Project HOPE, EDSD anticipates providing a minimum of 3,500 needy seniors more than 1,800,000 pounds of food during the 2004 fiscal year. To address an increasing need for services, EDSD

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Department of Community Initiatives (Continued)

now staffs an Elderly Resource & Referral "one-stop" center that operates in direct coordination with the newly created Office of Elderly Affairs.

The Community Centers Division operates three Community Centers located in the west, east and southwest sectors of the city. Services provided by tenant programs in the three centers include Head Start, youth counseling, youth and senior recreational activities, emergency assistance, parenting program, seniors nutrition program, Code Compliance offices, and a Metro Health clinic. One of the centers is also used as an emergency shelter during city or regional disasters.

Strategic partnerships can demonstrate a high level of impact and improvement in our community. Some of the Department's strategic partners include but are not limited to Bexar County school districts, childcare centers, UTSA, and community based organizations including Family Services Association, KLRN, AVANCE, YMCA, the United Way, Annie E. Casey Foundation, Alamo Workforce Development, Inc. (AWD), Smart Start, employers, and other community and faith based organizations. DCI also staffs numerous boards, commissions and task forces to include: Community Action Advisory Board, Commission for Children and Families, Literacy Commission, Youth Commission; Joint City/County Commission for the Elderly, Mayor's Task Force on Homelessness and Hunger, and the Day Labor Task Force. DCI's continued strategic partnerships and public accountability will continue to be the key to successfully raising the community's education and skill levels and improving quality of life.

Information Technology Services Department

The Information Technology Services Department (ITSD) provides information technology (IT) services, 24 hours a day, 7 days a week, to all City departments and other agencies through information and technology sharing agreements. The Information Technology Vision of the City is to provide business solutions that will enhance the City's effectiveness in serving its employees, citizens, businesses and visitors through the successful use of IT. The focus of ITSD's mission includes: Information Management, Business Applications, Geographic Information Systems, Computing Platforms, Technology Management, and Enterprise Resource Management (ERM). The City is constantly striving to take advantage of advancements in technology to provide the tools needed to respond effectively and efficiently to the increasing demands for service from its citizens. Demands for the ability to conduct business electronically, allow for faster response time, increase participation and involvement in government, along with economic pressures to do more with less, are major factors that affect the use of technology in the City.

As the City continues its Security Initiative to institute new security policies, guidelines and operating procedures for all City systems, its goal is to protect the City's infrastructure by reducing risks, complying with laws and regulations, and ensuring business continuity, information integrity and confidentiality. This involves supporting the implementation of HIPAA compliant guidelines and solutions for end-users. The City is involved with Homeland Defense and Emergency Management Technology Support Systems and with the Dark Screen Project initiated by Representative Ciro Rodriguez. Dark Screen is a consortium of local, county, state and federal entities involved in preventing cyber terrorism and has tested the response capabilities of the City and the surrounding regions to a cyber-terrorist attack. Dark Screen operations will recommend and develop methods for industry, law enforcement, government, and academia to cooperatively protect critical infrastructures, and will serve as a model for other cities in preparing for a cyber-terrorist attack or similar event. ITSD continues to update its business continuity plans and to monitor, maintain, revise, and disseminate current security policies, procedures, and administrative directives to ensure they are current.

The San Antonio Community Portal provides Internet access to enhance the City's effectiveness and efficiency in serving its employees, citizens, businesses and visitors. The City's website, www.sanantonio.gov, strives to

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (Continued)

seamlessly extend services and improve communications between the City and the Community-at-large. During 2003, the following online services were added to the San Antonio Community Portal to provide San Antonio stakeholders one-stop access to government information and services: online permitting, scheduling of building inspections, bond election information, dynamic job announcements, dynamic RFP system, Online Grant Application System, Escrow Balance Look-up System, as well as the Incentive Scorecard System.

The City's Personal Computer (PC) Lease Program, known as Seat Management, provides for a full range of computer services at each employee's desk or "seat". Seat Management is an effort to stabilize the desktop computing environment and to improve technology performance, reliability, and service across departments. This program will integrate with current ITSD best practices to establish a standard desktop program for City PCs that will provide a uniform operating platform, consistent support and functionality for end-users.

ITSD Customer Service is implementing Customer First practices by improving communication with customers. An e-mail notification of new tickets along with a satisfaction survey is being implemented and reports of Service Level Agreement performance are being published on a website. Trouble tickets can be entered on the same website. New training classes for professional growth of ITSD and City staff continue to be developed.

The GIS Division serves as the coordinating body for mapping and data development for departments within the City of San Antonio. The GIS Division is committed to the development of accurate and timely data about the City of San Antonio and the surrounding region. Each department utilizes GIS data as applicable in order to provide a continuing level of service to the citizens of San Antonio.

Electronic Document Management and Automated Records Management expand and enhance the management of documents for the City. These systems include Enterprise-wide scanning and imaging solutions, contract management and imaging, and the integration of automated workflow. To facilitate Texas State Retention Schedule requirements, all disposition instructions and over 50,000 physical entries have been integrated into a single record management architecture.

Knowledge and Information Management continue to support the collection, analysis, organization, sharing and employment of information critical to the attainment of City goals. Implementation of the SAP Business Warehouse and Crystal Reports will provide convenient access to City data and statistics.

The joint effort between the City and the County to implement a new 800 MHz trunk radio system is nearing completion. New MA/COMM portable radios are being distributed and mobiles are being installed in vehicles for various City departments, including Police, Fire and EMS, and the County Sheriff's Office. The target date for completion of this project is the first quarter of 2004. The new radio system will serve the City of San Antonio Police Department, the San Antonio Fire/EMS Department, the Bexar County Sheriff's Office and other County law enforcement agencies, and both City and County non-public safety agencies.

The Core Data Network Infrastructure will continue to be improved by the implementation of new technologies with enhanced reliabilities at City locations to provide better ways to access City information. Network enhancement with 100+Mb hubs and switches and full gigabit services will occur at key locations. SONET-based technology will expand through virtual routing. Shared network environments will be replaced with switched services to improve bandwidth. Wireless technology will be used in remote City offices where line of site is available. Currently, fiber projects include expansion to the Southeast Service Center and to the San Antonio International Airport. Negotiations are currently underway to utilize the Time Warner and Grande

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Information Technology Services Department (Continued)

Communications franchise agreements for Road Runner and expanded bandwidth services. All of these improvements to the core data network infrastructure will serve to support the Enterprise Resource Management initiative.

Enterprise Resource Management Project
With its expected completion in Summer 2005, the Enterprise Resource Management Project (ERM) will make San Antonio's municipal government one of the most technologically advanced. ERM is an enterprise architecture project, being rolled out in eight phases, that will improve the delivery of services to citizens and other customers through a Customer Relationship Management (CRM) component, along with reengineered business functions through an Enterprise Resource Planning (ERP) component and a Land & Development Services component that will more effectively meet the needs and timelines of developers, builders and others. ERM will also enable E-government services. The implementation of the first ERM phase, last year, has already put certain development services on-line, including some permitting and the scheduling of inspections. The business community is responding favorably to the first phase. Because ERM is a fully integrated system with a shared database, it will enhance the quality of data available across the organization for resource planning, decision-making and collaboration.

Code Compliance Department
The Code Compliance Department seeks to enhance neighborhoods and their citizens' health, safety, and general welfare through efficient and effective City code enforcement. This department also strives to promote a higher quality of life by promoting awareness and compliance with City Codes in order to stabilize and reverse deterioration of neighborhoods.

The department's fiscal year 2003 staff for code enforcement includes 68 Code Enforcement Officers, 10 Dangerous Premises Officers, and 10 Abatement Officers. Each Code Officer patrols the city in marked vehicles equipped with a computer laptop providing effective and efficient code enforcement activities. Monitoring vacant lots is an example of one activity that falls under this Department's jurisdiction of enforcement for improving the quality of life for the citizens of San Antonio.

Public safety is one of the City's major concerns in its enforcement of overgrown vacant lots. Abandoned properties, whether vacant lots or structures, present adverse conditions impacting the quality of life in the community. The Department recognizes these issues and is attempting to increase community awareness and voluntary compliance by encouraging and developing partnerships with neighborhood organizations, community groups, and local businesses to ensure a safer, cleaner, and more beautiful San Antonio.

If private property lots are not cleaned by their owners, the City hires a private contractor. Contracting with a small business to perform the cleanups helps stimulate the local economy, while accomplishing the department's objectives. The majority of these private contractors are small business operators and/or Historically Underutilized Businesses (HUBs). This business activity is an opportunity that allows small business owners to compete with larger businesses. In fiscal year 2003, $341,177 was expended on vacant lot clean up through these contracts.

Medicine and Healthcare
The City is cognizant of the importance of, and continues to support, its medical infrastructure. The City is actively involved in promoting the industry, recognizing its significance to San Antonio and its citizens. Major medical research, manufacturing, training, and health care facilities located in San Antonio include the Southwest Biomedical Research Institute (high technology biomedical manufacturing), the University of Texas Health Science Center at San Antonio (medical school, dental school, nursing school, allied health sciences school), the

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Medicine and Healthcare (Continued)

University Health System, Wilford Hall Medical Center (United States Air Force), Brooke Army Medical Center (a world renowned burn treatment and research center), and the South Texas Medical Center. The Medical Center contains numerous hospitals, a specialized treatment center, and the renowned Cancer Therapy and Research Center which attracts patients nationally and internationally. In addition, Brooks City-Base is a major medical and environmental research facility of which the U.S. Air Force Medical Service is a major tenant.

The San Antonio Metropolitan Health District is the local public health agency for the City. It provides preventive health services, health code enforcement, clinical services, environmental monitoring, animal control, disease surveillance and control, emergency preparedness, health education, dental services, and is the local registrar of vital statistics.

Developmental Services
On April 14, 2003, the Development and Business Services Center (DBS Center) opened for business. More than 200 City staff members moved to the two-story, 75,000 square foot center located just minutes from City Hall with free on-site parking. City customers can access services offered by Development Services, Planning, Economic Development Small Business Services, Fire Marshal's office, Health Inspectors, and Public Works.

Right-of-Way Management.
A variety of other agencies also conduct business at the DBS Center including: City Public Service, San Antonio Water System, and BexarMet Water District. The co-location of these development-related services helped streamline the development process and provided a convenient location for the development community to conduct business.

In addition to moving to the DBS Center, Development Services Department designed and implemented new land development software to manage vital functions, including the issuance of building permits, trade permits and trade licenses, building plan review, and building inspection. The consolidation of data into one system allows Development Services Department to use the new software to better manage the flow of development services such as plan intake, plan review, permitting, and inspections. City staff, developers, builders, and other customers who require land development services are experiencing an enhancement in the delivery of these services. For example, a key enhancement is the City's new on-line permitting and inspection system. Within four months of implementing the system, 24 percent of all building permits were issued on-line and 14 percent of all inspections are scheduled using the Internet.

The Development Services Department also made investments in human capital by cross-training its staff to provide a variety of services for a true "one stop" experience when conducting business at the DBS Center. The department has separate staff for residential and commercial plan review and intake, and provides expedited reviews for smaller projects. Approximately 50 percent of all commercial plans are reviewed at the One Stop Counter in less than 10 days.

Contracting Initiatives
With the opening of the DBS, space in the Municipal Plaza Building was vacated. The Department of Asset Management, in conjunction with the City Architect's Office and the assistance of various other departments, developed a plan for the backfill of the vacated space. The focus of the plan has been to provide additional space for overcrowded departments, as well as the co-location of certain functions for efficiency and effectiveness. The following departments have moved into Municipal Plaza: Parks & Recreation administrative offices, Office of Management & Budget, Contract Services Division of the Department of Asset Management, and the Real Estate Division, Traffic Engineering, and Project Management Divisions of the Public Works Department.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Contracting Initiatives (Continued)

In July 2001, the City Council approved the creation of the Contract Services Unit, a division of the Department of Asset Management. This division has focused on creating and promoting City-wide standards and systems for improving the management of contracts through the development and implementation of: 1) standards for contract management, planning, and solicitation; 2) strategies to streamline contract negotiation and approvals, 3) rigorous monitoring practices, and 4) training programs for contract officers. During fiscal year 2003 the Contracting Policy & Process Manual was created. This Manual is a comprehensive guide outlining, step-by-step, contracting procedures from contract inception to completion. In addition, the Contract Services Unit provided contract training and certification to over 200 Certified Contracting Officers.

The Department of Asset Management, in conjunction with the Department of Economic Development and with the assistance of various other departments, developed the Incentive Toolkit. The Toolkit includes an inventory of available development incentives and outlines the criteria for fee reductions and waivers, which are administered by the Department of Economic Development through an online application.

Environmental Services Department
The Environmental Services Fund receives most of its revenues from the Residential Solid Waste Fee, Brush Fee, and the Environmental Fee as collected by City Public Service. Additional revenues to this fund are generated from Licensing and Permitting Fees, Mulch and Brush Disposal Fees, and Out of Cycle Collections. The fund supports both Environmental Management and the Solid Waste Divisions of the Environmental Services Department.

The Solid Waste Division is responsible for the collection of municipal solid waste generated by over 310,000 homes and businesses within the City of San Antonio. The primary services provided by the Solid Waste Division include: bi-weekly collection of residential garbage, weekly curbside collection of residential recyclables, dead animal collection, downtown night garbage collection, and the bi-annual collection of residential brush and bulky items. Other services include Out-Of-Cycle collection requests for brush and bulky items, neighborhood associations and civic groups support through the weekend Dial-A-Trailer program, and the Keep San Antonio Beautiful Association sponsorship. The Solid Waste Division also provides cleanups for special events, weather related emergencies, and high priority needs of the City.

The Environmental Management Division is responsible for ensuring City property and construction projects are in compliance with all federal, state and local environmental rules and regulations. This Division assesses and investigates the environmental conditions of land, air, and groundwater for the City. Other major responsibilities of the Division involve administering the City's Air Quality and Household Hazardous Waste (HHW) Programs, monitoring and maintaining the City's closed landfills, and overseeing or performing asbestos assessments and environmental remediation. This division also provides technical support for the City's efforts related to energy conservation and compliance with Senate Bill 5–State legislation requiring 25% reduction in energy consumption by City facilities over the next 5 years.

Public Works
The Public Works Department provides public services and infrastructure in a quality manner through the use of modern engineering and management practices. The department provides design, construction, and renovation of City buildings, streets and drainage facilities, and operates the traffic network.

The Capital Programs Division completed 46 street and drainage projects at a cost of $65,088,444. Having completed almost 54 miles of reconstructed streets, these projects will minimize flooding, reduce the number of potholes, reduce traffic delays, and allow greater mobility. Additionally, voters approved $48.3 million in street and drainage improvements as part of a larger bond program in November 2003.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Public Works (Continued)

The Northeast Service Center, located along Wurzbach Parkway was completed in 2003. The facility consists of vehicle maintenance operations for Purchasing, Street Maintenance Operations under Public Works, and garbage collection services by Environmental Services Department. This facility also includes a 3,000 square foot multi-use space for meetings and public use.

The Street Maintenance Division expanded its Pavement Reclamation program in its second year of implementation. The Pavement Reclamation program is specifically designed for full-depth street reclamation. The reclaimer also recycles existing asphalt "in-place" instead of having to purchase new asphalt for street maintenance projects. This process reduces the amount of time it takes to reconstruct a street by 50%. Customer Service is improved by minimizing inconvenience to the citizens while working in their neighborhoods. Recycling of the existing asphalt diverts waste from the landfill. Two additional asphalt pavers and milling machines purchased in 2003 are used to assist City crews in meeting increased customer demand for paved asphalt projects with smooth riding surfaces and skid resistance to improve safety.

Neighborhood Accessibility & Mobility Program (NAMP) funding has been increased to $400,000 for each council district and the scope of work under this program has been expanded from sidewalks and speed humps to other transportation improvements such as street maintenance, small street repair, traffic signals, school flashers, pedestrian walkways and medians. The additional funding and expansion of projects under NAMP will be positive for neighborhoods needing specific improvements.

A thirty-percent across the board rate increase for the Storm Water Utility fee provided improvements in the delivery of services as well as providing for the capacity to issue Storm Water Revenue Bonds for the first time. In cooperation with Bexar County and the San Antonio River Authority, regional drainage projects were evaluated and prioritized for execution using the nearly $45 million generated through the sale of these revenue bonds. All twenty-two projects are underway. Projects include infrastructure recapitalization from the July 2002 flood, floodplain property buy-out, design and construction of major outfalls, and elimination of low water crossings.

The cooperation and collaboration within the Regional Flood Control, Drainage, and Storm Water Management Program made great strides. A Regional Watershed Modeling System was completed. This will form the basis for generating design and operational standards throughout Bexar County. Work has begun to create watershed models for both public and private sector users to mitigate impact of new development and significant redevelopment on both storm water quantity and quality issues. A strategic financial model is near completion that will assist in making future strategic funding decisions.

For the first time, the citywide street cleaning program has been coordinated with the City's brush pick up services to increase the efficiency and effectiveness of both of these vital services. Using Natural Resource Conservation Service and Bexar County funding, City crews are near completion of major flood debris clean up efforts in the major natural waterways within the City. With this coordinated effort, standardized methodology for debris cleanup within natural waterways has been developed for annual implementation. A major de-silting effort was completed at Davis Lake on the San Antonio River in the vicinity of Espada Dam. Nearly 170,000 cubic yards of naturally deposited silt has been removed. This effort will provide for increased capacity in the channel as well as a significant enhancement to the surface water quality of the river.

The Right of Way Division has directed/overseen the rehabilitation of $250,000 worth of improvements from right-of-way users and is currently working to negotiate approximately $250,000 more. The Division is working to resurrect the on-line permitting site and will soon be interfacing with the Pavement Management System.

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Convention Facilities
During the last year, the Henry B. Gonzalez Convention Center hosted 350 events with over 600,000 attendees. Events at the Center include conventions, tradeshows, corporate meetings, public shows, and private events. The San Antonio Automobile Dealers Association had record numbers with 110,000 attendees, the Veteran's of Foreign Wars of the US Annual National Convention brought over 16,000 attendees to the City, and Armstrong McCall's World's Fair of Cosmetics Arts record attendance resulted in their booking three future shows. In the arena of professional accomplishments, we have the distinction of having 16 Certified Meeting Professionals, which is more than any other convention center. This program is ongoing and there will be 6 more candidates eligible for this designation in the coming year.

Alamodome
In 2003, the Alamodome celebrated its tenth year anniversary. Over the last year, the facility hosted close to a million visitors for 150 events.

In its inaugural year of marketing its own advertising, the Alamodome secured a multi-million dollar sponsorship with the Pepsi Bottling Group. Pepsi and its products will be the official non-alcoholic beverages of the facility for the next five years. The Alamodome continues to focus on its advertising program while forging new corporate partnerships.

A true success story in 2003 was the funding approval for much needed interior improvements to the Alamodome. As part of this package, the facility will receive a fresh, modern look in the early part of 2004. New architectural features, updated restrooms, remodeled dining facilities, as well as several other features will add to the facility's appeal.

The 2003 NCAA Men's South Regional tournament was a huge success, with the Alamodome hosting one of the best-attended NCAA tournaments of the year. Approximately 60,000 fans converged on San Antonio for the two-day event. The Alamodome looks forward to being the site of the 2004 NCAA Men's Final Four.

The ESPN X-Games Global Championships debuted in May at the Alamodome. This event was the first of its kind produced by ESPN with simultaneous broadcasting between the summer games in San Antonio and the winter games in Whistler, B.C. The X Games Global Championship was viewed by more than 110 million households and aired in 140 countries. Due to the tremendous success of the event, ESPN plans to bring the event back to the Alamodome in 2005.

Spurs fever returned to the Alamodome once again! Though the team has moved to the SBC Center, the new venue was too small to accommodate their many fans for the city wide NBA Championship Celebration. The Alamodome hosted more than 57,000 well wishers at the largest championship party the team had ever had.

Nelson W. Wolff Municipal Stadium
The Nelson W. Wolff Baseball Stadium opened in April 1994 and has a seating capacity of 6,500. It has a multi-purpose design, which allows for events such as professional baseball, concerts, boxing, and high school, college, and amateur sports. The stadium is home to the San Antonio Missions, a double-A minor league baseball team. In 2000, the Missions became a farm club of the Seattle Mariners. The Missions won the Texas League Championship in 2003 for a second time since moving to the stadium.

Other Amenities
The City supports and promotes various other tourism and quality-of-life amenities, including performing arts and cultural entertainment facilities, museums, the San Antonio Zoo, and the preservation of the Alamo, as well as

ECONOMIC OVERVIEW (Continued)

Infrastructure Development (Continued)

Basic Infrastructure Components (Continued)

Other Amenities (Continued)

enterprises such as Sea World of Texas, and Six Flags Fiesta Texas. The City also provides support and funding for cultural organizations, from dance performance companies to the Symphony Society of San Antonio, and facilities including the Witte Museum, the San Antonio Museum of Art, the Southwest Craft Center, the Carver Community Cultural Center, and the Guadalupe Cultural Arts Center.

In addition, San Antonio is home to various professional sports teams including the San Antonio Spurs, the San Antonio Rampage Ice Hockey team, and the San Antonio Missions. San Antonio also hosts two PGA tour events, the Valero Texas Open and Senior PGA SBC Championship.

International Outlook

In its fifth year, the City's International Affairs Department continues to develop an Export Leaders Program that focuses on small to medium size San Antonio companies with a high potential and strong commitment to develop and expand international markets. The San Antonio Export Leaders Program is a competitive eight-month program that offers the tools, training, consultation and coaching necessary for about fifteen companies to be successful in exporting and offers the participants a new export experience. In four years, the program has graduated 48 companies.

San Antonio continues to develop itself as an INLAND PORT for imports and exports to/from Mexico, Latin America, and other regions of the world. This encompasses transportation, manufacturing, and logistics facilities as well as professional and value-added services involved in producing, marketing, and moving freight within, into and out of the San Antonio area. Over the past eleven years, the City has operated three commercial trade offices in Mexico's three largest cities: Mexico City, Guadalajara and Monterrey.

The City's commitment to international trade is evidenced in the City's International Center which houses the North American Development Bank, International Conference Center, the Trade Commission of Mexico, Mexican State Trade Offices, the Free Trade Alliance San Antonio, the U.S. Department of Commerce, the City's International Affairs Department and the Convention & Visitors Bureau.

Budgetary Controls

Budgetary compliance is a significant tool for managing and controlling governmental activities, as well as ensuring conformance with the City's budgetary limits and specifications. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Levels of budgetary control, that is the levels at which expenditures cannot legally exceed appropriated amounts, are established by function and activity within individual funds. The City utilizes an encumbrance system of accounting as one mechanism to accomplish effective budgetary control. Encumbered amounts lapse at year-end, however, encumbrances generally are appropriated as part of the following year's budget. For the fiscal year beginning October 1, 2001, the Government Finance Officers Association of the United States and Canada ("GFOA") presented an award of Distinguished Budget Presentation to the City.

As demonstrated by the statements and schedules in the Financial Section of this report, the City continues to meet its responsibility for sound financial management. As in the Financial Section, all monetary amounts presented in the remainder of this letter are expressed in thousands, except where noted.

FINANCIAL INFORMATION

Fiscal Management and Administrative Topics

Pension and Postemployment Retirement Benefits

The City provides pension retirement benefits for its eligible employees through two plans. For uniformed Fire and Police employees, retirement benefits are provided through the Fire and Police Pension Fund, a single-employer defined benefit retirement plan. Contribution and benefit levels are established under State statute. For fiscal year 2003, active members contributed 12.32% of covered payroll, or $22,504 and the City contributed 24.64%, or $45,008.

The City provides all other eligible employees, exclusive of fire and police employees, retirement benefits through the Texas Municipal Retirement System (TMRS), a nontraditional, joint contributory, hybrid defined benefit plan. TMRS is a statewide agent multiple-employer public employee retirement system. Contributions to the system are actuarially determined. The required contribution from City employees is 6%, while the City matches at a rate of approximately 11.42%. Both the City and its covered employees made the required contributions of $22,684 and $11,864 respectively. For additional information on the City's pension plans, see Note 8 in the notes to the financial statements.

With respect to post-employment health benefits, the City provides benefits for all non-uniformed City retirees and for all pre-October 1, 1989 uniformed fire and police retirees. The cost of the program is reviewed annually and actuarially determined costs of medical claims are funded jointly on a pay-as-you-go basis with the City contributing 2/3 and the retirees contributing 1/3 of the cost. As of September 30, 2003, 1,495 retirees were participating in the program and currently there are 6,530 active civilian employees who may become eligible for this program in the future.

The second post-employment health benefit program provides retirement health care benefits for eligible fire and police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). Contribution and benefits levels are established under the City's collective bargaining agreements with the Fire and Police Unions, respectively. The benefits of this plan are financed on a prefunded basis. For fiscal year 2003, the City contributed $15,466 to the Fund and active employees and retirees contributed $1,678. Recent actuarial studies have resulted in different results and indicate that the current contribution levels are not sufficient to amortize the unfunded liability of the Fund. The City continues to review the Fund in order to develop a comprehensive framework for a long-term solution. For additional information on City's post-employment health benefits, please see Note 9, of the notes to the financial statements.

Employee Benefits Program

The City's Self-Insurance Fund continues to experience increased expenses due to rising health care costs, increased prescription drug costs, increased claims volume and changing employee demographics. The City continues to focus on cost containment programs such as: hospital audits, hospital pre-certification, utilization review, large case management, prescription benefit management, and a preferred provider organization to assist in managing the rising cost of medical care. Such strategies have been effective for the City in managing medical costs in a changing health care industry. The City is in the process of hiring an additional Utilization Review Specialist to support the cost containment programs and aid in identifying cost savings. In fiscal year 2004, the City will have an opportunity to further enhance the cost containment program by evaluating additional options for plan modifications when the HMO, PPO, and health benefits third party administrator's contracts expire. The total cost savings for fiscal year 2004, as a result of plan changes, premium increases, and enhanced cost containment is estimated at $1,999. In fiscal year 2003, the Employee Benefits Fund had cash reserve of $192 and a deficit net assets balance of $19,919. For additional information on the City's risk and employee benefits programs, please see Note 12, of the notes to the financial statements.

Fiscal Management and Administrative Topics (Continued)

Risk Management Programs

For the sixth time in twelve years, the Insurance Reserve Fund maintained a positive net assets balance of $3,889 for the fiscal year 2003. Whereas, the Workers' Compensation Fund reflected a negative net assets balance of $4,659. The Insurance Reserve and Workers' Compensation Funds carried cash reserves at September 30, 2003 in the amount of $15,558 and $11,779, respectively.

The Risk Management Division Safety Office has continued aggressive efforts this year to promote Accident Prevention/Loss Control projects. This year 3,370 employees received formal classroom training on a number of subjects, totaling 43,810 classroom hours collectively. Training classes include Defensive Driving, First Aid and CPR, Drug and Alcohol Awareness training for commercial drivers and supervisors, New Employee Safety Orientations, Professional Truck Driving, Supervisor's Accident Investigation training, Hazardous Chemicals training, Ergonomics Awareness, and other specialized training courses. The Safety Office has spent in excess of 1,175 hours in delivering the aforementioned formal training.

In addition, the Safety Office continues to improve the quality of safety and health education to serve the needs of all City employees by developing customized training programs and updating training materials and/or training methods. The Safety Office has also provided Departments 1,795 hours of technical assistance and one-on-one informal training on a variety of safety and health topics in fiscal year 2003. It has initiated the use of a more comprehensive format during consultative visits with Departments this year to assist in identifying and evaluating both safety, health and liability risk exposure. Loss Control abatement measures are recommended wherever possible. Preventing cumulative trauma and repetitive motion injuries have continued to receive major focus by the inspection and evaluation of employee work environments with recommendations for adjustments or changes when needed. Facility inspections and accident investigations are also conducted by the Safety Specialists. Review of accident statistics continues to represent a significant area of responsibility for the Section in order to assist departments in identifying and correcting negative trends in frequency and loss severity. This year 3,924 employee driver evaluations were processed with records being updated.

Cash and Investment Management

The City's investment policies are governed by state statute and the City's own written investment policies. Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; investment diversification, yield, maturity, and the quality and capability of investment management; and include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "investment strategy statement" that specifically addresses each fund's investment. Each investment strategy statement will describe strategy objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

The City is authorized to use demand accounts, time accounts, certificates of deposit, and other permissible investments including Obligations of the U.S. Treasury and U.S. Agencies, Obligations of States and Cities, Commercial Paper, Repurchase Agreements, Money Market Funds, and Investment Pools. The City's investment portfolio does not include callable obligations or any derivative products. It is not the City's policy to use derivative products in its portfolio, nor does the City leverage its investments.

At September 30, 2003, City investment funds were 91.49% invested in obligations of the United States, or its agencies and instrumentalities, and 5.79% invested in a money market mutual fund, with the weighted average maturity of the portfolio being less than one year. The remaining 2.31% of the City's portfolio includes the Convention Center Debt Service Reserve Fund of $16,999, which was invested in a fully collateralized repurchase agreement that is fully secured by obligations of the United States or its agencies and instrumentalities. The investments and maturity terms are consistent with State law, and the City's investment policy objectives, which are to preserve principal, limit risk, maintain diversification and liquidity, and to maximize interest earnings. For additional information on Cash and Investments, please see Note 3 of the notes to the financial statements.

Fiscal Management and Administrative Topics (Continued)

Debt Administration

The City utilizes a comprehensive debt management financial planning program (The Debt Management Plan), which is updated annually. The Debt Management Plan is a major component of the City's financial planning. The model projects financing needs while measuring and assessing the cost and timing of each debt issuance. It involves comprehensive financial analysis which utilizes computer modeling, and incorporates variables such as interest rate sensitivity, assessed values changes, annexations, and current ad valorem tax collection rates. Use of this financial management tool has assisted the City in meeting its financing needs by facilitating timely and thorough planning which has allowed the City to capitalize on market opportunities.

Strict adherence to conservative financial management has allowed the City to meet its financing needs while at the same time maintaining its "Aa2", "AA+" and "AA+" bond rating by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Public Ratings Services, a division of McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") respectively. The positive trend in the City's credit strength is evidenced by S&P's rating upgrade in December 1998 from "AA" to its current "AA+" and Fitch's rating upgrade in October 1999 from "AA" to "AA+". For additional information on the City's long-term debt, please see Note 6 of the notes to the financial statements.

OTHER INFORMATION

INDEPENDENT AUDIT

State statutes require that an annual audit by an independent certified public accountant be conducted. The City's Audit Committee selected the accounting firms KPMG LLP, Leal & Carter PC, and Robert J. Williams, CPA in 2002. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The Independent Auditors' Report on the basic financial statements, management's discussion and analysis (required supplementary information), required disclosures and schedules are included in the Financial Section of this CAFR. The Independent Auditors' Report along with other required reports and schedules mandated by the Single Audit Act Amendments of 1996 and OMB Circular A-133 are in a separate document.

AWARDS

San Antonio's appeal to its citizens, potential businesses and visitor's stems from its historical beauty, high quality of life and low cost of living. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended September 30, 2002. This was the 27th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. The report must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. The Certificate of Achievement is valid for a period of one year and we believe the current CAFR continues to meet the Certificate of Achievement Program's requirements.

The City of San Antonio Planning Department was recognized by the Texas Chapter of the American Planning Association (APA) with two (2) 2003 Texas APA Planning Awards. The Department received the 2003 Project Planning Award for the Southside Initiative Community Plan. In addition, the Neighborhood Conservation District program was honored with the 2003 Current Planning Award.

OTHER INFORMATION (Continued)

The preparation of the City of San Antonio, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 2003, was made possible by the dedication and hard work of the Finance Department, particularly the staff of the Accounting Division. Each member of the Department has my sincere appreciation for their contributions to the preparation of this document. In closing, please accept my sincere gratitude to the Mayor and City Council, City Manager, Deputy City Manager, Assistant City Managers, Assistants to the City Manager, and their staff, for their continued support.

Respectfully Submitted,

Milo D. Nitschke
Director
Finance Department

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Antonio, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

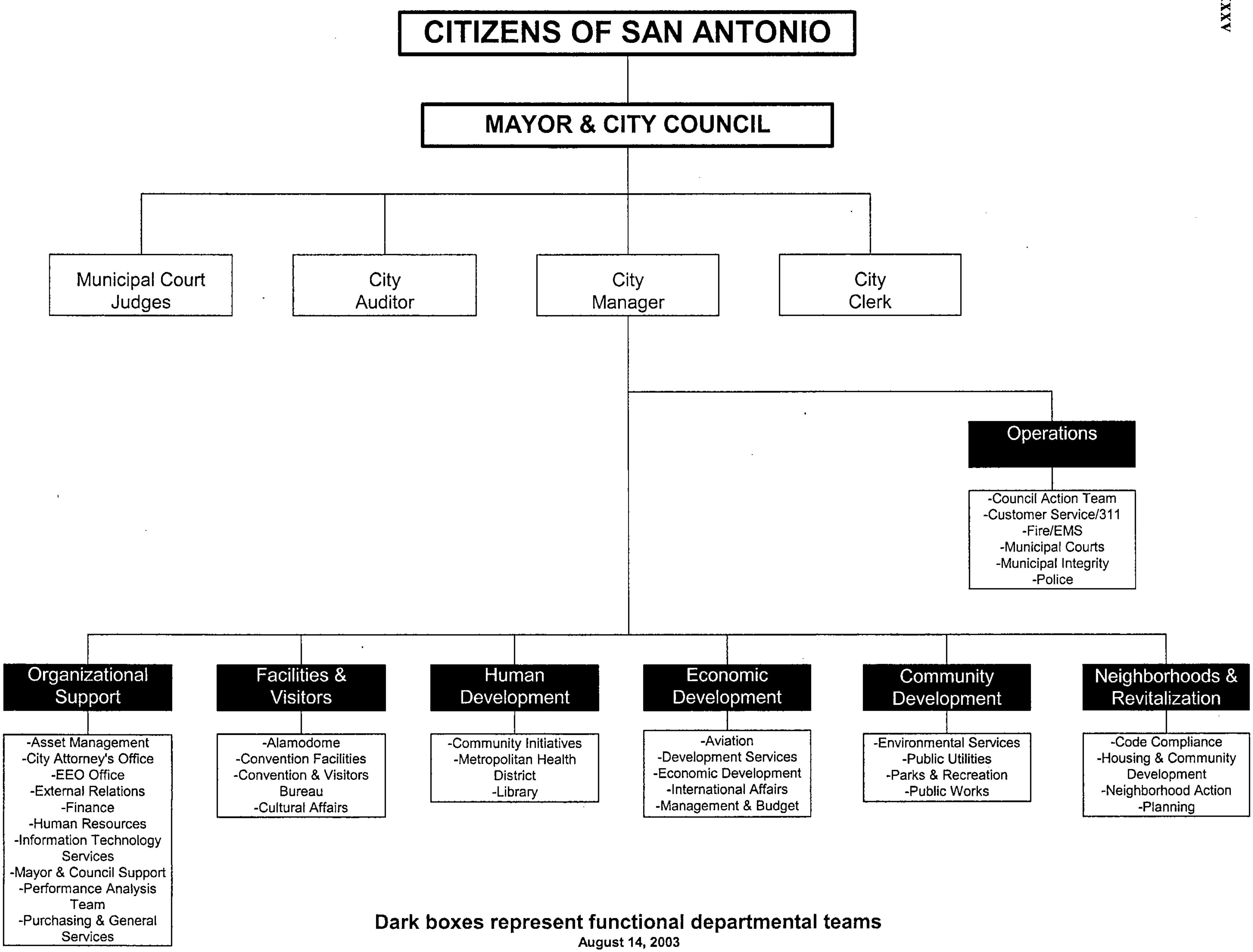
President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of San Antonio for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2002. This was the 27th consecutive year that the City has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.



Dark boxes represent functional departmental teams

August 14, 2003

CITY OF SAN ANTONIO, TEXAS

Incorporated December 14, 1837 *Charter Adopted October 2, 1951*
Council - Manager Form of Government

CITY COUNCIL
Edward D. Garza, Mayor

Roger O. Flores
Joel Williams
Ron H. Segovia
Richard Perez
Patti Radle
Enrique M. Barrera
Julian Castro
Art A. Hall
Carroll W. Schubert
Christopher Haass

CITY MANAGER
Terry M. Brechtel

DEPUTY CITY MANAGER
J. Rolando Bono

ASSISTANT CITY MANAGER
Christopher J. Brady

ASSISTANT CITY MANAGER
Melissa Byrne Vossmer

ASSISTANT CITY MANAGER
Jelynne L. Burley

ASSISTANT CITY MANAGER
Frances A. Gonzalez

ASSISTANT TO THE CITY MANAGER
Roland A. Lozano

ASSISTANT TO THE CITY MANAGER
Erik J. Walsh

MEMBER OF THE GOVERNMENT FINANCE OFFICERS
ASSOCIATION OF THE UNITED STATES & CANADA

City of San Antonio
Texas

Financial Section

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City of San Antonio
Texas

Independent Auditors' Report

KPMG
300 Convent, Suite 1200
San Antonio, TX 78205

RJW
Robert J. Williams
Certified Public Accountant
P.O. Box 34058
San Antonio, TX 78265-4058

LEAL & CARTER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
11122 Wurzbach Rd. / Suite 200
San Antonio, Texas 78230-2573

Independent Auditors' Report

The Honorable Mayor
and Members of City Council
City of San Antonio, Texas:

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of and for the year ended September 30, 2003, which collectively comprise the City of San Antonio, Texas' basic financial statements as listed in the accompanying table of contents under "Basic Financial Statements." These financial statements are the responsibility of the City of San Antonio, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of certain discretely presented component units and blended component units included in the governmental and fiduciary funds of the City of San Antonio, Texas, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP and Leal & Carter, P.C., acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those component units, are based solely on the reports of the other auditors.

	Percent not jointly audited	
	Total assets	Total revenue
Government-wide		
Governmental activities	0%	0%
Business-type activities	0%	0%
Discretely presented component units	27%	21%
Fund statements		
Major funds	0%	0%
Aggregate remaining fund information	73%	34%

	Percent audited by KPMG separately		Percent audited by Leal & Carter separately		Percent audited by Robert J. Williams separately	
	Total assets	Total revenue	Total assets	Total revenue	Total assets	Total revenue
Government-wide						
Discretely presented component units	0%	0%	1%	1%	0%	0%
Fund statements						
Aggregate remaining fund information	5%	4%	0%	0%	0%	0%

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of San Antonio, Texas, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 12, the Budgetary Comparison schedule on page 113, and Schedules of Funding Progress on page 114 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we, and the other auditors, did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of San Antonio, Texas' basic financial statements. The introductory section, the combining financial statements, schedules and other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules and other supplementary information have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP Robert J Williams CPA Leal & Carter, P.C.

February 23, 2004

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City of San Antonio
Texas

Management's Discussion and Analysis

(Required Supplementary Information)

(Unaudited)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of San Antonio (City) presents the following discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2003. This discussion and analysis is intended to assist readers in focusing on significant financial issues, changes in the City's financial position, and identifying any significant variances from the adopted budget. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the financial statements provided in this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City exceeded its liabilities by $2,518,782 (net assets). Of this amount, $133,483 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $526,250, an increase of $70,494 compared to the fiscal year 2002 fund balance. The total unreserved fund balance of $271,821 is available for spending at the government's discretion. Of this amount, $44,988 designated and $226,833 is undesignated fund balance.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $74,410, or 14.3% of the total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as the introduction of the City of San Antonio's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business financial presentation.

The *statement of net assets* is a presentation of the City's assets and liabilities, including capital and infrastructure assets, and long-term liabilities. This statement reports the difference between assets and liabilities as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information regarding increases and decreases to the government's net assets for the fiscal year. Changes in net assets are recorded when the underlying event giving rise to the change occurs regardless of the timing of the cash flows. Therefore, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). Governmental activities include general government, public safety, public works, sanitation, health services, environmental protection and control, culture and recreation, convention and tourism, conservation, urban redevelopment and housing, welfare and economic development opportunity. The business-type activities of the City include the airport system, parking system, and environmental services.

In addition, the basic financial statements provide information regarding the City's legally separate discretely presented component units. Component unit financial information is reported separately from the primary government in the government-wide financial statements.

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are used to present financial information detailing resources that have been identified for specific activities. The focus of the fund financial statements is on the City's major funds, although non-major funds are also presented in aggregate and further detailed in the supplementary statements. The City uses fund accounting to ensure and demonstrate compliance with requirements placed on resources. Funds are divided into three types: governmental, proprietary, and fiduciary. Fund financial statements allow the City to present information regarding fiduciary funds, since they are not reported in the government-wide financial statements.

Governmental funds. Governmental funds are used for essentially the same functions reported in the governmental activities in the government-wide financial statements. However, unlike the government-wide statement, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

As the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental fund and governmental activities.

The City of San Antonio maintains five individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each nonmajor governmental fund is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the functions presented in business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its airport, parking and environmental services funds. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions, including, self-insurance programs, other internal services and information technology services. The services provided by these funds predominantly support the governmental rather that the business-type functions. They have been included within the governmental activities in the government-wide financial statements that are reported alongside the business activities.

Proprietary fund financial statements provide separate and more detailed information for the airport, parking, and environmental services funds. The airport and parking funds are considered major funds of the City while internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the government-wide financial statements as the resources of those funds are not available to support the City's programs and operations. The accounting for fiduciary funds is much like that used for the proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information on the City's General Fund budget, which is adopted on an annual basis. A budgetary comparison statement has been provided for this fund in order to demonstrate budgetary compliance with this budget.

Government-wide Financial Analysis

GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments*, requires that the City provide a comparative analysis of government-wide data. Below is a comparative summary of the governmental activities and business-type activities as required by GASB Statement No. 34:

City of San Antonio, Texas
Statement of Net Assets
For the Year Ended September 30, 2003
(With Comparative Totals for September 30, 2002)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current and other assets	$ 731,143	$ 632,243	$ 206,703	$ 222,870	$ 937,846	$ 855,113
Capital Assets	3,001,042	2,938,157	294,308	276,008	3,295,350	3,214,165
Total Assets	3,732,185	3,570,400	501,011	498,878	4,233,196	4,069,278
Current and other assets	146,728	129,128	13,440	14,633	160,168	143,761
Long-term liabilities	1,287,466	1,184,719	266,780	273,886	1,554,246	1,458,605
Total Liabilities	1,434,194	1,313,847	280,220	288,519	1,714,414	1,602,366
Net Assets						
Investment in capital assets, net of related debt	2,079,719	2,036,269	156,567	152,261	2,236,286	2,188,530
Restricted	92,524	109,693	56,489	52,077	149,013	161,770
Unrestricted	125,748	110,591	7,735	6,021	133,483	116,612
Total Net Assets	$2,297,991	$2,256,553	$ 220,791	$ 210,359	$2,518,782	$2,466,912

For the year ended September 30, 2003, total assets exceeded liabilities by $2,518,782. The largest portion of the City's net assets, 2,236,286 (88.8%) represents its investment in capital assets less any related debt used to acquire those assets that is still outstanding, and includes assets such as land, infrastructure, improvements, buildings, machinery and equipment.

Capital assets are used to provide services to the citizens of San Antonio and are not available for further spending. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

Of the total net assets, $149,013 (5.9%) represents resources that are subject to external restrictions on how they may be used. The remaining $133,483 (5.3%) represents unrestricted net assets, which can be used to meet the government's ongoing obligations to citizens and creditors.

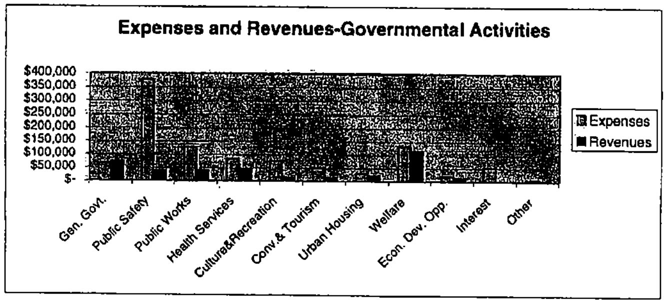
City of San Antonio, Texas
Changes in Net Assets
For the year ended September 30, 2003
(With Comparative Totals for September 30, 2002)

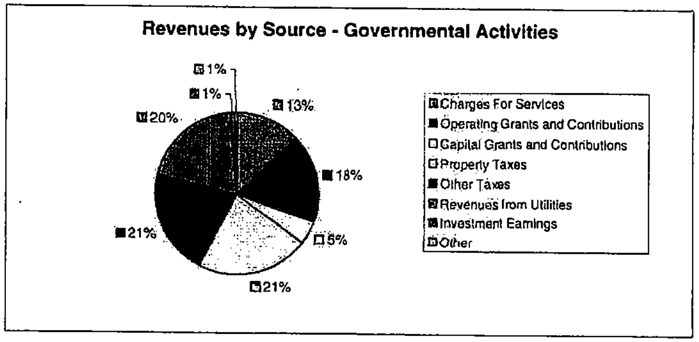
	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program Revenues:						
Charges for services	$ 136,118	$ 133,821	$ 100,998	$ 94,814	$ 237,116	$ 228,635
Operating grants and contributions	190,746	183,849	3,865	5,040	194,611	188,889
Capital grants and contributions	51,189	16,400			51,189	16,400
General revenues:						
Property Taxes	236,947	225,740			236,947	225,740
Other Taxes	232,009	233,851			232,009	233,851
Revenues from Utilities	210,854	171,632			210,854	171,632
Investment Earnings	8,556	13,504	2,557	3,365	11,113	16,869
Net Decrease in Fair Value of Investments	(20)	(423)	(6)	(74)	(26)	(497)
Miscellaneous	(1,639)	12,269	9,406	7,610	7,767	19,879
Gain on Sale of Capital Assets	542	1,703	39	50	581	1,753
Capital Contributions	1,115	481			1,115	481
Total Revenues	$ 1,066,417	$ 992,827	$ 116,859	$ 110,805	$ 1,183,276	$ 1,103,632
Expenses:						
Primary Government:						
Governmental Activities:						
General Government	67,034	77,887			67,034	77,887
Public Safety	378,316	414,382			378,316	414,382
Public Works	128,374	131,010			128,374	131,010
Sanitation	7,102	7,909			7,102	7,909
Health Services	84,239	78,662			84,239	78,662
Environmental Protection and Control	298	194			298	194
Culture and Recreation	77,434	76,400			77,434	76,400
Convention and Tourism	51,141	49,754			51,141	49,754
Conservation		15				15
Urban Redevelopment and Housing	28,653	17,038			28,653	17,038
Welfare	133,455	133,818			133,455	133,818
Economic Development Opportunity	19,847	27,322			19,847	27,322
Commercial Paper Fees	84	13			84	13
Interest on Long-term Debt	54,490	54,628			54,490	54,628
Business-type Activities:						
Airport			45,164	41,941	45,164	41,941
Parking Facilities			7,523	8,693	7,523	8,693
Environmental Services			48,252	48,223	48,252	48,223
Total Expenses	1,030,467	1,069,032	100,939	98,857	1,131,406	1,167,889
Increase/(Decrease) in Net Assets before Transfers	35,950	(76,205)	15,920	11,948	51,870	(64,257)
Transfers	5,488	2,072	(5,488)	(2,072)		
Net Increase/(Decrease) in Net Assets	41,438	(74,133)	10,432	9,876	51,870	(64,257)
Beginning Net Assets	2,256,553	2,330,686	210,359	200,483	2,466,912	2,531,169
Ending Net Assets	$ 2,297,991	$ 2,256,553	$ 220,791	$ 210,359	$ 2,518,782	$ 2,466,912

Governmental Activities

The City's total revenues were $1,183,276 for fiscal year ended September 30, 2003. Revenues from governmental activities totaled $1,066,417 and revenues from business-type activities totaled $116,859. General revenues represented 59.2% of the City's total revenue, while program revenues provided 40.8% of revenue received in fiscal year 2003.

Expenses for the City totaled $1,131,406. Governmental activity expenses totaled $1,030,467, or 91.1% of total expenses.



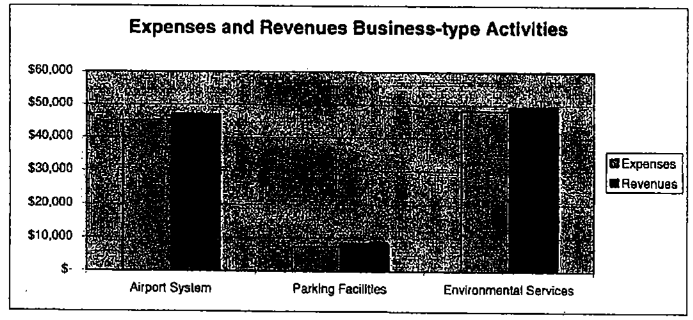


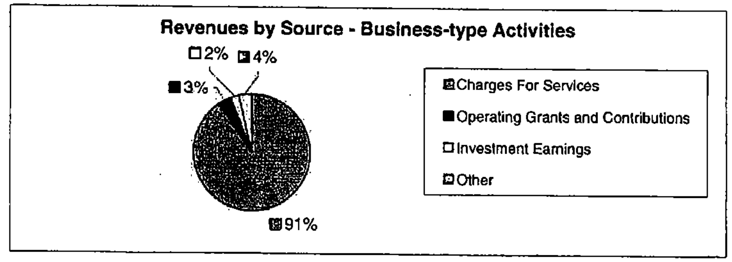
Revenues exceeded expenses by $41,438. General revenues increased over fiscal year 2002 by $30,134, which was partially attributed to an in increase in Revenues from Utilities.

Expenses decreased slightly over prior year amounts, of which, 4% was a result of lower Public Safety spending.

Business-type Activities

Program revenues for the City's business-type activities totaled $104,863, which is $5,009 higher than the previous fiscal year. Expenses for business-type activities were $100,939 compared to prior years expenses of $98,857. The current year's increase in expenses is attributed to increased expenses incurred in the Airport fund over the prior year. The remaining revenue was a result of interest and other miscellaneous items.





Financial Analysis of Governmental Funds

Activities of the Primary Government's General Fund, Special Revenue Funds, and Debt Service Funds are considered general government functions. The General Fund is the City's general operating fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted as to expenditure. The Debt Service Funds are used to account for financial activity related to the City's general bonded indebtedness, as well as other long-term obligations.

Revenues from taxes increased by $10,528 which was primarily attributable to: (1) a $10,120 or 7.5% increase in property tax revenue for the General Fund, (2) an $888 or 0.6% decrease in sales tax revenue in the General Fund, and (3) a $1,422 or 1.2% increase in property tax revenue for the Debt Service Fund as a result of increased property valuation, new construction, and annexation. Revenues for the utilities category, which is represented in the City's General Fund increased by $39,222 or 22.9% which is primarily attributed to an increase of $38,899 in the City's payment from CPS which is based on CPS' gross revenues. CPS revenues are impacted by variables such as fuel costs, weather, types of electric generation used as well as other factors.

The total fund balance of the General Fund at year-end was $81,642, an increase of $19,190 from the total fund balance of $62,452 for the close of fiscal year 2002. The total unreserved general fund balance for fiscal year 2003 is $74,410, which represents $32,926 in designated and $41,484 in undesignated fund balance. The undesignated fund balance, which represents amounts available for additional appropriations, in the General Fund at the close of the fiscal year increased by $21,687 from the previous year.

The total fund balance of the Debt Service Fund at year-end was $87,888; a decrease of $1,460 from the total fund balance for the close of fiscal year 2002. The entire fund balance is reserved for payment of debt service.

General Fund Budgetary Highlights

Significant Variances in Budget Appropriations
General Fund

	Original Budget	Final Budget	Actual Results
General Government	$ 67,170	$ 71,932	$ 53,416
Public Safety	357,542	363,628	361,835
Public Works	10,567	12,943	11,921
Health Services	13,459	13,603	13,815
Sanitation	2,522	2,511	2,515
Welfare	16,314	17,049	16,317
Culture and Recreation	60,787	61,806	59,120
Economic Development and Opportunity	5,414	6,905	5,538
Transfers to other funds	67,612	71,237	70,378
Total	$ 601,387	$ 621,614	$ 594,855

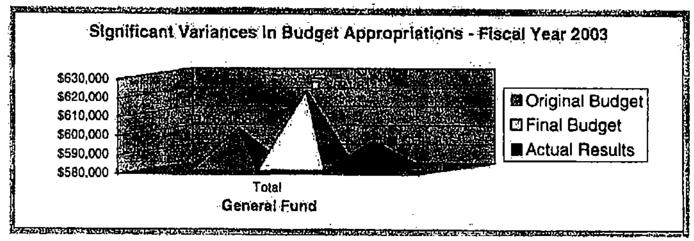
Changes in original budget appropriations to the final amended budget appropriations were a $20,227 increase in appropriations. This increase can be summarized by the following discussion.

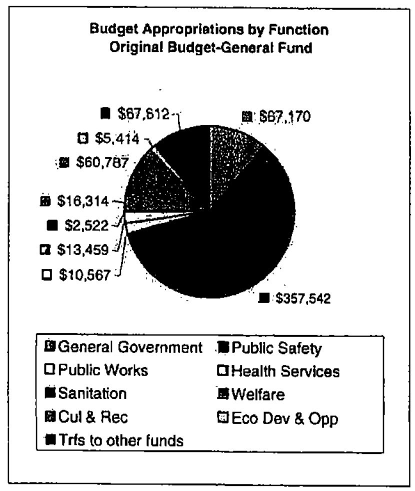
General Government had a $4,762 increase composed of $9,967 of budget carry forwards and a $5,205 budget decrease. Of the $6,086 increase in Public Safety, $3,691 was due to budget carry forwards and a $2,395 budget increase. Public Works had a $2,376 increase composed of an increase of $2,408 in budget carry forwards and a $32 budget decrease. The $144 budget increase in Health Services was due to $142 increase in budget carry forwards and a $2 budget increase. Sanitation had a decrease of $11 due to a $10 budget carry forward and $21 budget decrease. Of the $735 increase in Welfare, $1,489 was due to budget carry forwards and a $754 budget decrease. The Culture and Recreation $1,019 increase was due to $1,024 for budget carry forwards and $5 as a decrease in budget. The $1,491 increase in Economic Development and Opportunity was due to a $1,501 increase in budget carry forwards and a $10 budget decrease. The $3,625 increase in transfers was due to $2,403 in budget carry forwards and $1,222 was funded from various government functions.

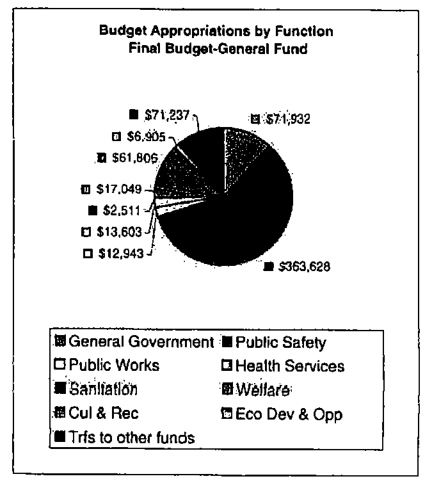
Final budgeted appropriations for the General Fund were $621,614 while actual expenditures were $594,855, creating a positive variance of $26,759. Significant variances are as follows:

- General Government had a $18,516 positive variance composed of $6,932 of budgeted salaries, $1,224 of anticipated payments to Bexar County Detention Center, $3,291 of appropriations for various one-time projects yet to be completed, $5,845 in contractual services, and $408 in unrealized commodities such as supplies and repair and maintenance, and $816 in unrealized capital expenditures.
- Public Works had a positive variance of $1,022, which was due to an unrealized budgeted increase in street lighting and energy charges.
- Economic Development and Opportunity had a $1,367 positive variance is attributable to $119 in savings in salaries, $713 in contractual services, $530 in unrealized budgeted increase in other expenditures, and $5 in unrealized commodities such as supplies and repairs and maintenance.

The following charts provide a comparison of the City's budget appropriations.





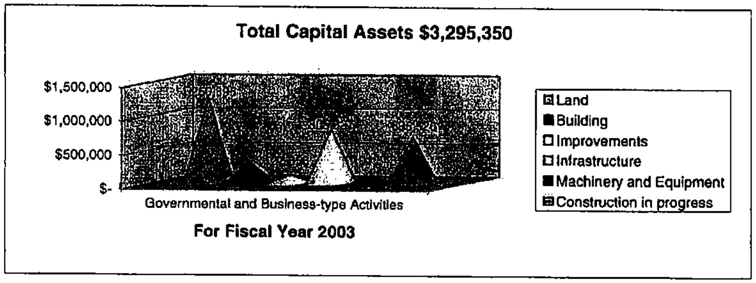


Capital Assets

The City of San Antonio's investment in capital assets for its governmental and business-type activities as of September 30, 2003, amounts to $3,295,350 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was 2.5%, which is comprised of a 2.1% increase for governmental activities and a 6.6% increase for business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land	$ 1,238,908	$ 1,215,391	$ 11,988	$ 11,988	$ 1,250,896	$ 1,227,379
Buildings	239,019	233,466	75,380	74,973	314,399	308,439
Improvements	34,974	26,747	92,682	86,545	127,656	113,292
Infrastructure	805,327	858,756			805,327	858,756
Machinery and Equipment	96,856	78,899	4,690	4,436	101,546	83,335
Construction in Progress	585,958	524,898	109,568	98,066	695,526	622,964
Totals	$ 3,001,042	$ 2,938,157	$ 294,308	$ 276,008	$ 3,295,350	$ 3,214,165

The following schedule provides a summary of the City's capital assets:



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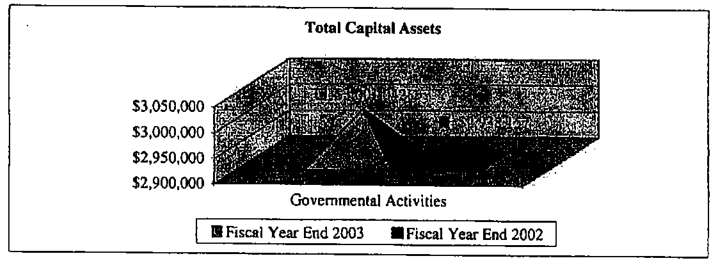
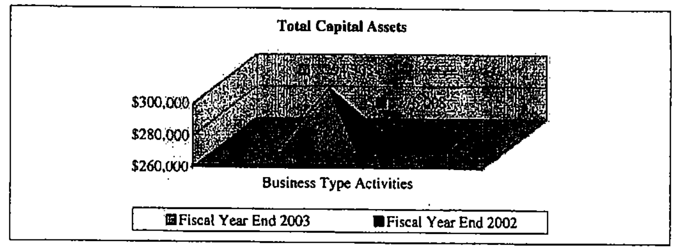
Change in Capital Assets
September 30, 2003

	Governmental Activites	Business-Type Activities	Total
Beginning Balance	$ 2,938,157	$ 276,008	$ 3,214,165
Additions	160,345	40,534	200,879
Deletions	(11,194)	(14,922)	(26,116)
Accumulated Depreciation	(86,266)	(7,312)	(93,578)
Total	$ 3,001,042	$ 294,308	$ 3,295,350

The following charts provide a summary of the changes in capital assets:





Additional information on the City's capital assets can be found in Note 4 of the notes to the financial statements.

Debt Administration

Long-term Debt

At the end of the current fiscal year, the City of San Antonio had a total of $1,376,721 in bonds, certificates, revenue bonds and commercial paper outstanding, an increase of 6% over last year. Additional information on the City of San Antonio's long-term debt, including descriptions of the new issues, can be found in Note 6 in the Notes to the Financial Statements.

City of San Antonio's Outstanding Debt
September 30, 2003 and 2002

	Governmental Activities	
	2003	2002
Bonds Payable:		
General Obligation Bonds	$ 666,983	$ 669,473
Tax-Exempt Commercial Paper	10,500	20,800
Tax-Exempt Certificate of Obligation	196,280	145,405
Taxable Certificate of Obligation	5,165	9,780
Revenue Bonds	234,918	179,393
Total	$ 1,113,846	$ 1,024,851

	Business-type Activities	
	2003	2002
Bonds Payable:		
General Obligation Bonds	$ 12,475	$ 12,855
Tax-Exempt Certificate of Obligation	135	915
Revenue Bonds	250,265	255,180
Total	$ 262,875	$ 268,950

On September 30, 2002, outstanding general obligation and revenue bonds, certificates, and commercial paper debt totaled $1.294 billion. In December 2002, the City issued additional debt in the amount of $126 million. The $126 million was comprised of $55,850 in general obligation bonds and $69,930 in tax-exempt certificates of obligation. The general obligation bonds and certificates of obligation are to be utilized to fund capital improvement projects to include streets and pedestrian improvements, parks and recreation facilities improvements, library system improvements and public safety. Also, a portion of the general obligation bonds was used to refund $24 million of the City's outstanding tax supported debt. Additionally, in May 2003, the City issued $41 million in general obligation refunding bonds, together with a cash contribution from the City, which were used to refund $43 million of the City's outstanding tax supported debt. Municipal Drainage System Revenue Bonds were issued in May 2003 for the amount of $44 million, which were issued to provide funds to finance the costs of making drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City's Municipal Drainage Utility System. In addition, $56 million in general improvement refunding bonds were issued in July 2003 which were used, together with a cash contribution from the City, to refund $58 million of the City's outstanding tax supported debt.

Standard & Poor's, Moody's and Fitch's underlying rating for City obligations are as follows:

	Std&Poor's	Moody's	Fitch
General Obligation/ Certificate of Obligation	AA+	Aa2	AA+
Airport	A+	A1	A+
Airport PFC	A-	A2	A+
Convention Center	A+	A	A
Parking	A+	A2	A+

The Constitution of the State of Texas and the City Charter limit the amount of debt the City may incur. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2003 was $46,320,796, which provides a debt ceiling of $4,632,079.

Requests for Information

This financial report is designed to provide a general overview of the City's position for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 839966, San Antonio, TX 78283-3966.

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City of San Antonio
Texas

Basic Financial Statements

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CITY OF SAN ANTONIO, TEXAS

STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2003
(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
Assets				
Cash and Cash Equivalents	$ 291,599	$ 8,485	$ 300,084	$ 257,451
Investments	275,213	7,171	282,384	69,504
Receivables (net)	115,732	7,492	123,224	228,437
Due from Fiduciary Funds	402		402	
Due from Other Governmental Agencies	34,633		34,633	2,418
Internal Balances	4,677	(4,677)		
Inventories of Materials and Supplies, at Cost	5,617	651	6,268	120,293
Prepaid Expenses	194	18	212	28,402
Deposits	628		628	
Restricted Assets:				
Cash and Cash Equivalents		84,842	84,842	136,435
Investments		98,219	98,219	993,613
Receivables - Accrued Interest		238	238	5,803
Capital Assets:				
Non-depreciable	1,824,866	121,556	1,946,422	787,289
Depreciable, net	1,176,176	172,752	1,348,928	5,752,321
Prepaid Rent Long Term - Leaseback				555,762
Unamortized Debt Expense	2,448	4,264	6,712	34,278
Total Assets	3,732,185	501,011	4,233,196	8,972,006
Liabilities				
Accounts Payable and Other Current Liabilities	110,920	9,299	120,219	225,388
Deferred Revenues	19,481	847	20,328	128
Accrued Interest	8,992	3	8,995	
Accrued Bond and Certificate Interest		3,291	3,291	5,975
Due to Other Governmental Agencies	7,335		7,335	1,702
Noncurrent Liabilities:				
Due within one year	114,699	12,073	126,772	108,402
Due in more than one year	1,172,767	254,707	1,427,474	4,747,915
Total Liabilities	1,434,194	280,220	1,714,414	5,089,510
Net Assets				
Invested in Capital Assets, net of related debt	2,079,719	156,567	2,236,286	3,420,701
Restricted for:				
Debt Service	89,681	25,362	115,043	8,580
Equipment Renewal and Replacement	38	1,500	1,538	579,298
Improvement and Contingency		29,627	29,627	
Conservation				7,877
Perpetual Care:				
Expendable	1,338		1,338	
Nonexpendable	1,467		1,467	
Unrestricted	125,748	7,735	133,483	(133,960)
Total Net Assets	$ 2,297,991	$ 220,791	$ 2,518,782	$ 3,882,496

The accompanying notes are an integral part of these financial statements.

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CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

		PROGRAM REVENUES		
FUNCTION/PROGRAM ACTIVITIES	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General Government	$ 67,034	$ 48,963	$ 659	$ 24,744
Public Safety	378,316	17,166	9,796	10,548
Public Works	128,374	26,208	824	13,006
Sanitation	7,102			
Health Services	84,239	17,917	29,217	21
Environmental Protection and Control	298		249	315
Culture and Recreation	77,434	10,134	3,159	1,388
Convention and Tourism	51,141	14,067		
Urban Redevelopment and Housing	28,653	116	21,267	19
Welfare	133,455	207	113,748	838
Economic Development Opportunity	19,847	1,340	11,827	310
Commercial Paper Fees	84			
Interest on Long-term Debt	54,490			
Total governmental activities	1,030,467	136,118	190,746	51,189
Business-type Activities				
Airport System	45,164	43,051		3,865
Parking Facilities	7,523	8,455		
Environmental Services	48,252	49,492		
Total business-type activities	100,939	100,998		3,865
Total primary government	$ 1,131,406	$ 237,116	$ 190,746	$ 55,054
Component units:				
San Antonio Water System	239,208	235,224	0	76,928
City Public Service	1,319,190	1,301,493		53,431
Other Component Units	51,682	44,341		2,193
Total component units	$ 1,610,080	$ 1,581,058	$ 0	$ 132,552

General Revenues:
Taxes:
Property Taxes
General Sales and Use Taxes
Selective Sales and Use Taxes
Gross Receipts Business Taxes
Occupancy Taxes
Penalties and Interest on Delinquent Taxes
Revenues from Utilities
Investment Earnings
Net (Decrease) in Fair Value of Investments
Miscellaneous
Gain (Loss) on Sale of Capital Assets
Capital Contributions
Transfers (net)
Total General Revenues, Special Items, and Transfers
Change in Net Assets
Net Assets - Beginning
Prior Period Adjustment
Net Assets - Ending

CITY OF SAN ANTONIO, TEXAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	PRIMARY GOVERNMENT			
FUNCTION/PROGRAM ACTIVITIES	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
General Government	$ 7,332	$ 0	$ 7,332	
Public Safety	(340,806)		(340,806)	
Public Works	(88,336)		(88,336)	
Sanitation	(7,102)		(7,102)	
Health Services	(37,084)		(37,084)	
Environmental Protection and Control	266		266	
Culture and Recreation	(62,753)		(62,753)	
Convention and Tourism	(37,074)		(37,074)	
Urban Redevelopment and Housing	(7,251)		(7,251)	
Welfare	(18,662)		(18,662)	
Economic Development Opportunity	(6,370)		(6,370)	
Commercial Paper Fees	(84)		(84)	
Interest on Long-term Debt	(54,490)		(54,490)	
Total governmental activities	(652,414)		(652,414)	
Airport System		1,752	1,752	
Parking Facilities		932	932	
Environmental Services		1,240	1,240	
Total business-type activities		3,924	3,924	
Total primary government	(652,414)	3,924	(648,490)	
San Antonio Water System				$ 72,944
City Public Service				35,734
Other Component Units				(5,148)
Total component units	0	0	0	103,530
Property Taxes	236,947	0	236,947	0
General Sales and Use Taxes	156,322		156,322	
Selective Sales and Use Taxes	3,863		3,863	
Gross Receipts Business Taxes	22,128		22,128	
Occupancy Taxes	44,633		44,633	
Penalties and Interest on Delinquent Taxes	5,063		5,063	
Revenues from Utilities	210,854		210,854	
Investment Earnings	8,556	2,557	11,113	52,421
Net (Decrease) in Fair Value of Investments	(20)	(6)	(26)	
Miscellaneous	(1,639)	9,406	7,767	13,452
Gain (Loss) on Sale of Capital Assets	542	39	581	(5,071)
Capital Contributions	1,115		1,115	
Transfers (net)	5,488	(5,488)		
Total General Revenues, Special Items, and Transfers	693,852	6,508	700,360	60,802
Change in Net Assets	41,438	10,432	51,870	164,332
Net Assets - Beginning	2,256,553	210,359	2,466,912	3,721,281
Prior Period Adjustment				(3,117)
Net Assets - Ending	$ 2,297,991	$ 220,791	$ 2,518,782	$ 3,882,496

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2003
(In Thousands)

	MAJOR FUNDS GENERAL	MAJOR FUNDS DEBT SERVICE	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets				
Cash and Cash Equivalents	$ 13,113	$ 25,793	$ 221,302	$ 260,208
Investments	10,422	60,827	175,007	246,256
Receivables	82,266	9,957	92,835	185,058
Allowance for Uncollectibles	(8,051)	(853)	(61,307)	(70,211)
Prepaid Expenditures	63		131	194
Due from Other Funds	24,210	893	2,173	27,276
Due from Other Governmental Agencies	330		34,309	34,639
Allowance for Uncollectibles			(331)	(331)
Inventories of Materials and Supplies, at Cost	2,397		1,475	3,872
Deposits			354	354
Total Assets	$ 124,750	$ 96,617	$ 465,948	$ 687,315
Liabilities and Fund Balances				
Liabilities:				
Vouchers Payable	$ 2,819	$ 0	$ 19,139	$ 21,958
Accounts Payable - Other	2,060		25,984	28,044
Accrued Payroll	7,052		1,955	9,007
Accrued Leave Payable	5,343		1,034	6,377
Deferred Revenues	25,714	8,405	27,733	61,852
Accrued Interest		324		324
Due To:				
Other Funds	120		26,759	26,879
Other Governmental Agencies			6,624	6,624
Total Liabilities	43,108	8,729	109,228	161,065
Fund Balances:				
Reserved:				
Reserved for Encumbrances	4,772		157,703	162,475
Reserved for Inventories	2,397		1,475	3,872
Reserved for Prepaid Expenditures	63		131	194
Reserved for Debt Service		87,888		87,888
Unreserved:				
Designated	32,926			32,926
Designated: Special Revenue Funds			9,228	9,228
Designated: Permanent Funds			2,834	2,834
Undesignated	41,484			41,484
Undesignated: Special Revenue Funds			60,252	60,252
Undesignated: Capital Projects Funds			114,482	114,482
Undesignated: Permanent Funds			10,615	10,615
Total Fund Balances	81,642	87,888	356,720	526,250
Total Liabilities and Fund Balances	$ 124,750	$ 96,617	$ 465,948	$ 687,315

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
AS OF SEPTEMBER 30, 2003
(In Thousands)

Fund Balances - Total Governmental Funds		$ 526,250
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Governmental capital assets		
Land and Land Improvements	1,238,908	
Construction In Progress	585,958	
Buildings	384,956	
Improvements	69,720	
Infrastructure Assets	1,949,975	
Machinery and Equipment	70,482	
Less: Accumulated Depreciation	(1,342,017)	
Total Capital Assets		2,957,982
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds.		42,936
Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.		56,574
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Governmental bonds payable	(1,134,577)	
Premium on bonds	(33,836)	
Deferred Amount on Refunding	7,913	
Leases Payable	(9,354)	
Unamortized Debt Expense	2,448	
Accrued Interest	(8,668)	
Arbitrage Rebate	(1,344)	
Compensated Absences	(108,333)	
		(1,285,751)
Net assets of governmental activities		$ 2,297,991

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

	MAJOR FUNDS			
	GENERAL	DEBT SERVICE	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes:				
Property Taxes	$ 149,456	$ 89,401	$ 358	$ 239,215
General Sales and Use Taxes	138,962		17,360	156,322
Selective Sales and Use Taxes	3,863			3,863
Gross Receipts Business Taxes	26,364			26,364
Occupancy Taxes			44,633	44,633
Penalties and Interest on Delinquent Taxes	1,873	1,183	13	3,069
Licenses and Permits	13,912			13,912
Intergovernmental	2,878		183,934	186,812
Revenues from Utilities	210,466			210,466
Charges for Services	27,284		60,756	88,040
Fines and Forfeits	11,282			11,282
Miscellaneous	8,531		41,366	49,897
Interest	1,283	2,343	4,328	7,954
Net (Decrease) in Fair Value of Investments	(3)		(14)	(17)
In-Kind Contributions			19,887	19,887
Total Revenues	596,151	92,927	372,621	1,061,699
Expenditures				
Current:				
General Government	52,283		11,894	64,177
Public Safety	361,305		13,785	375,090
Public Works	11,856		56,495	68,351
Health Services	13,690		69,918	83,608
Environmental Protection and Control			618	618
Sanitation	2,514			2,514
Welfare	15,764		118,255	134,019
Culture and Recreation	58,917		15,372	74,289
Convention and Tourism			51,452	51,452
Urban Redevelopment and Housing			23,766	23,766
Economic Development and Opportunity	5,367		14,677	20,044
Capital Projects			130,755	130,755
Debt Service:				
Principal Retirement		66,650		66,650
Interest		50,929		50,929
Bond Excrow Agent		2,118		2,118
Issuance Costs		1,206		1,206
Total Expenditures	521,696	120,903	506,987	1,149,586
Excess (Deficiency) of Revenues Over (Under) Expenditures	74,455	(27,976)	(134,366)	(87,887)
Other Financing Sources (Uses)				
Long-Term Debt Issued		121,245	149,765	271,010
Payments to Refunded Bond Escrow Agent		(131,410)		(131,410)
Premium on Long-term Debt		11,359	5,916	17,275
Transfers In	13,121	25,322	147,942	186,385
Transfers Out	(68,386)		(116,493)	(184,879)
Total Other Financing Sources (Uses)	(55,265)	26,516	187,130	158,381
Net Change in Fund Balances	19,190	(1,460)	52,764	70,494
Fund Balances, October 1	62,452	89,348	303,956	455,756
Fund Balances, September 30	$ 81,642	$ 87,888	$ 356,720	$ 526,250

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

Net change in Fund Balances - Total Governmental Funds		$ 70,494
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Donated capital assets	53	
Expenditures for capital assets	146,200	
Less current year deletions	(1,339)	
Less current year depreciation	(82,774)	62,140
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		10,409
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.		
Bond and loan amounts	(283,821)	
Bond costs	(12,299)	
Payments to Escrow Agent	133,528	
Amortization of Bond Premiums and Deferred Charges (net)	95	
Accrued interest	(2,951)	
Principal payments	66,650	(98,798)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		1,154
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.		(3,961)
Change in net assets of governmental activities		$ 41,438

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2003
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
ASSETS	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Current Assets:					
Cash and Cash Equivalents	$ 4,806	$ 1,287	$ 2,392	$ 8,485	$ 31,391
Investments	3,941	1,202	2,028	7,171	28,957
Receivables:					
Other Accounts	2,824		1	2,825	149
Less: Allowance for Uncollectibles	(505)			(505)	
Accrued Interest	19	4	6	29	85
Accrued Revenue	765	26	4,352	5,143	86
Due From Other Funds	270		322	592	9,771
Due From Other Governmental Agencies					348
Less: Allowance for Uncollectibles					(23)
Inventories	447	189	15	651	1,745
Prepaid Expenses	18			18	
Deposits					274
Total Current Assets	12,585	2,708	9,116	24,409	72,783
Noncurrent Assets:					
Restricted Assets:					
Debt Service Accounts:					
Cash and Cash Equivalents	4,096	179		4,275	
Investments	23,258	1,021		24,279	
Receivables-Accrued Interest	38	1		39	
Due From Other Funds	66			66	
Construction Accounts:					
Cash and Cash Equivalents	58,886	4,833	209	63,928	
Investments	54,278	4,473	192	58,943	
Receivables-Accrued Interest	153	13	1	167	
Improvement and Contingency Accounts:					
Cash and Cash Equivalents	15,259	780	84	16,123	
Investments	14,065	719	78	14,862	
Receivables-Accrued Interest	28	2	1	31	
Due from Other Funds	96			96	
Other Restricted Accounts:					
Cash and Cash Equivalents	516			516	
Investments	135			135	
Receivables-Accrued Interest	1			1	
Total Noncurrent Assets	170,875	12,021	565	183,461	
Capital Assets:					
Land	2,970	8,125	893	11,988	
Buildings	115,657	18,985	46	134,688	178
Improvements Other Than Buildings	156,110	1,639	3,025	160,774	194
Machinery and Equipment	10,232	759	3,774	14,765	106,478
Construction in Progress	97,477	11,591	500	109,568	
Total Capital Assets	382,446	41,099	8,238	431,783	106,850
Less: Accumulated Depreciation	125,338	9,243	2,894	137,475	63,790
Net Capital Assets	257,108	31,856	5,344	294,308	43,060
Unamortized Debt Expense	3,622	642		4,264	
Total Assets	$ 444,190	$ 47,227	$ 15,025	$ 506,442	$ 115,843

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2003
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
LIABILITIES	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Current Liabilities:					
Vouchers Payable	$ 276	$ 12	$ 1,501	$ 1,789	$ 2,850
Accounts Payable-Other	3,286	59	1,912	5,257	48,143
Accrued Payroll	306	72	420	798	918
Accrued Leave Payable	164	18	141	323	186
Deferred Revenues	847			847	
Accrued Interest			3	3	
Due to Other Funds	208		328	536	9,681
Total Current Liabilities (Payable from Current Assets)	5,087	161	4,305	9,553	61,778
Current Liabilities (Payable from Restricted Assets)					
Vouchers Payable	1,442	11	2	1,455	
Accrued Bond and Certificate Interest	3,014	277		3,291	
Current Portion of Bonds and Certificates	7,010	1,590		8,600	
Due to Other Funds	303			303	
Lease Purchase			137	137	161
Other Payables	1,595	357		1,952	
Total Current Liabilities (Payable from Restricted Assets)	13,364	2,235	139	15,738	161
Total Current Liabilities	18,451	2,396	4,444	25,291	61,939
Noncurrent Liabilities					
Revenue Bonds (Net of Current Portion)	218,410	24,445		242,855	
General Obligation Bonds and Certificates (Net of Current Portion)		11,420		11,420	
Unamortized Premium on New Series Bonds	3,013	532		3,545	
Less: Deferred Amount on Refunding	(4,573)	(578)		(5,151)	
Accrued Leave Payable	838	90	704	1,632	930
Lease Purchase			406	406	281
Due to Other Governmental Agencies					711
Other Payables			1,061	1,061	
Total Noncurrent Liabilities	217,688	35,909	2,171	255,768	1,922
Total Liabilities	236,139	38,305	6,615	281,059	63,861
NET ASSETS					
Invested In Capital Assets, net of related debt	147,328	4,039	5,200	156,567	42,618
Restricted:					
Debt Service	24,436	926		25,362	
Renewal and Replacement		1,500		1,500	
Improvements and Contingency	29,627			29,627	
Unrestricted	6,660	2,457	3,210	12,327	9,364
Total Net Assets	$ 208,051	$ 8,922	$ 8,410	$ 225,383	$ 51,982
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(4,592)	
Net assets of business-type activities.				$ 220,791	

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTAL	INTERNAL SERVICE FUNDS
Operating Revenues					
Charges for Services	$ 43,051	$ 8,455	$ 49,492	$ 100,998	$ 150,781
Total Operating Revenues	43,051	8,455	49,492	100,998	150,781
Operating Expenses					
Personal Services	16,065	3,071	21,349	40,485	36,061
Contractual Services	5,827	1,198	20,649	27,674	76,744
Commodities	1,632	58	3,077	4,767	4,377
Materials					16,486
Other	1,711	474	2,119	4,304	19,580
Depreciation	7,381	576	281	8,238	10,739
Total Operating Expenses	32,616	5,377	47,475	85,468	163,987
Operating Income (Loss)	10,435	3,078	2,017	15,530	(13,206)
Nonoperating Revenues (Expenses)					
Interest and Other	2,291	212	54	2,557	757
Net (Decrease) in Fair Value of Investments	(5)	(1)		(6)	(3)
Other Nonoperating Revenue	8,990	17	399	9,406	1,597
Gain (Loss) on Sale of Fixed Assets	32		7	39	542
Interest and Debt Expense	(11,709)	(2,008)	(22)	(13,739)	(36)
Other Nonoperating Expense	(409)	(32)		(441)	
Total Nonoperating Revenues (Expenses)	(810)	(1,812)	438	(2,184)	2,857
Change in Net Assets Before Contributions and Transfers	9,625	1,266	2,455	13,346	(10,349)
Capital Contributions	3,865			3,865	1,115
Transfers In (Out)					
Transfers In	1	446		447	6,400
Transfers Out	(530)	(4,463)	(942)	(5,935)	(2,418)
Total Transfers	(529)	(4,017)	(942)	(5,488)	3,982
Change In Net Assets	12,961	(2,751)	1,513	11,723	(5,252)
Net Assets - Beginning	195,090	11,673	6,897		57,234
Net Assets - Ending	$ 208,051	$ 8,922	$ 8,410		$ 51,982
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(1,291)	
Change in net assets of business-type activities.				$ 10,432	

The accompanying notes are an integral part of these financial statements.

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—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities					
Cash Received from Customers	$ 42,755	$ 8,462	$ 48,916	$ 100,133	$ 150,947
Cash Payments to Suppliers for Goods and Services	(10,376)	(1,865)	(24,796)	(37,037)	(109,649)
Cash Payments to Employees for Service	(15,844)	(3,079)	(21,192)	(40,115)	(35,931)
Other Nonoperating Revenues	8,991	17	77	9,085	1,596
Net Cash Provided by (Used for) Operating Activities	25,526	3,535	3,005	32,066	6,963
Cash Flows from Non-Capital Financing Activities					
Transfers In from Other Funds	1	446		447	6,675
Transfers Out to Other Funds	(530)	(4,463)	(942)	(5,935)	(2,684)
Due to/from Other Funds	50		6	56	12,740
Net Cash Provided by (Used for) Non-Capital Financing Activities	(479)	(4,017)	(936)	(5,432)	16,731
Cash Flows from Capital and Related Financing Activities					
Acquisitions and Construction of Capital Assets	(20,945)	(754)	(369)	(22,068)	(12,183)
Proceeds from Issuance of Long-Term Debt	63,257	26		63,283	67
Principal Payments on Long-Term Debt	(6,335)	(1,140)	(133)	(7,608)	(11)
Interest Paid on Long-Term Debt	(12,051)	(2,015)	(23)	(14,089)	
Debt Issuance	(1,053)			(1,053)	
Defeasance of Revenue Bonds	(60,240)			(60,240)	
Cost of Defeasance	(2,861)			(2,861)	
Proceeds from Insurance			322	322	
Principal Payments on Notes					(330)
Interest Paid on Notes					(26)
Proceeds from Sale of Assets	31		7	38	2,356
Net Cash Provided by (Used for) Capital and Related Financing Activities	(40,197)	(3,883)	(196)	(44,276)	(10,127)
Cash Flows from Investing Activities:					
Purchases of Investment Securities	(597,737)	(45,625)	(13,861)	(657,223)	(175,227)
Maturity of Investment Securities	643,395	51,586	13,728	708,709	179,015
Interest on Investments	2,468	225	54	2,747	789
Net Cash Provided by (Used for) Investing Activities	48,126	6,186	(79)	54,233	4,577
Net Increase (Decrease) in Cash and Cash Equivalents	32,976	1,821	1,794	36,591	18,144
Cash and Cash Equivalents, October 1	50,587	5,258	891	56,736	13,247
Cash and Cash Equivalents, September 30	$ 83,563	$ 7,079	$ 2,685	$ 93,327	$ 31,391

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	AIRPORT SYSTEM	PARKING FACILITIES	NONMAJOR ENTERPRISE FUND- ENVIRONMENTAL SERVICES	TOTALS	INTERNAL SERVICE FUNDS
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities					
Operating Income (Loss)	$ 10,435	$ 3,078	$ 2,017	$ 15,530	$ (13,206)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation	7,381	576	281	8,238	10,739
Other Nonoperating Revenues	8,990	17	77	9,084	1,597
Changes in Assets and Liabilities:					
(Increase) In Other Accounts Receivable	(397)		(1)	(398)	(28)
Decrease In Allowance for Uncollectibles	17			17	
(Increase) Decrease In Accrued Revenues	22	7	(575)	(546)	(79)
(Increase) In Due from Other Funds					(87)
(Increase) In Due from Other Gov'tl Agencies					(50)
(Increase) Decrease In Inventories	133	(121)		12	(39)
(Increase) In Prepaid Expenses	478			478	
Decrease In Deposits					437
Increase In Vouchers Payable	25	3	767	795	199
Increase (Decrease) In Other Payables	(1,842)	(17)	281	(1,578)	7,285
Increase In Due to Other Funds					55
Increase In Accrued Payroll	59	7	73	139	97
Increase (Decrease) In Accrued Leave Payable	162	(15)	85	232	34
Increase In Deferred Revenue	63			63	9
Net Cash Provided by (Used for) Operating Activities	$ 25,526	$ 3,535	$ 3,005	$ 32,066	$ 6,963
Noncash Investing, Capital and Financing Activities:					
Acquisitions and Construction of Capital Assets from Capital Contributions	$ 3,865	$	$	$ 3,865	$
Net (Decrease) in Fair Value of Investments	$ (5)	$ (1)	$	$ (6)	$ (3)

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF FIDUCIARY NET ASSETS/BALANCE SHEET
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2003
(In Thousands)

ASSETS	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
Current Assets			
Cash and Cash Equivalents	$ 37,002	$ 23	$ 8,670
Security Lending Collateral	95,492		
Investments, at fair value:			
US Government and Agency Issues	155,882	21	33
Corporate Bonds	128,956		
Preferred Common Stock	64,855		
Other	1,046,071		
Total Investments, at fair value	1,395,764	21	33
Receivables:			
Other Accounts	4,627		367
Accrued Interest	7,148		2
Accrued Revenue	882		
Due from Other Governmental Agencies	157		
Prepayments	12		
Total Current Assets	1,541,084	44	9,072
Capital Assets			
Computer Equipment	76		
Buildings	556		
Total Capital Assets	632		
Less: Accumulated Depreciation	(300)		
Net Capital Assets	332		
Total Assets	1,541,416	44	$ 9,072
LIABILITIES			
Vouchers Payable	4,465	2	1,767
Accounts Payable- Other	7,039		6,867
Accrued Payroll	27		36
Due to Other Funds			402
Securities Lending	95,492		
Total Liabilities	107,023	2	$ 9,072
NET ASSETS			
Held in Trust for Pension Benefits and Other Purposes	$ 1,434,393	$ 42	

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

	FIRE AND POLICE PENSION AND HEALTH CARE FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Employer	$ 61,805	$ 0
Employee	22,869	
Other Contributions		20
Total Contributions	84,674	20
Investment Earnings:		
Net Increase in Fair Value of Investments	170,518	
Real Estate Income, net	184	
Interest and Dividends	29,668	
Securities Lending	1,795	
Other Income	604	
Total Investment Earnings	202,769	
Less Investment Expenses:		
Investment Management Fees and Custodian Fees	(4,932)	
Securities Lending Expenses:		
Borrower Rebates	(1,420)	
Lending Fees	(131)	
Net Investment Income	196,286	
Total Additions	280,960	20
DEDUCTIONS:		
Benefits	69,647	
Refunds of Contributions	291	
Administrative Expense	1,581	13
Salaries, Wage and Employee Benefits	534	
Total Deductions	72,053	13
Change in Net Assets	208,907	7
Net Assets - Beginning of Year	1,225,486	35
Net Assets - End of Year	$ 1,434,393	$ 42

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2003
(In Thousands)

ASSETS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Assets:				
Cash and Cash Equivalents	$ 0	$ 239,703	$ 17,748	$ 257,451
Investments	11,849	57,614	41	69,504
Receivables:				
Notes			16,223	16,223
Other Accounts	25,869	179,618	3,531	209,018
Accrued Interest	1,771	1,357	68	3,196
Inventories of Materials and Supplies	4,523	115,756	14	120,293
Due from Other Governmental Agencies			2,418	2,418
Prepaid Expenses	1,027	26,996	379	28,402
Total Current Assets	45,039	621,044	40,422	706,505
Noncurrent Assets:				
Restricted Assets:				
Debt Service Accounts:				
Cash and Cash Equivalents	59	22		81
Investments	9,593	17,568		27,161
Receivables-Accrued Interest		337		337
Construction Accounts:				
Cash and Cash Equivalents	54,451			54,451
Investments	265,721			265,721
Repair and Replacement Account:				
Cash and Cash Equivalents		58,835		58,835
Investments		393,321		393,321
Receivables-Accrued Interest		2,785		2,785
Conservation Accounts:				
Investments	7,877			7,877
Other Restricted Accounts:				
Cash and Cash Equivalents		20,644	2,424	23,068
Investments	5,206	294,327		299,533
Receivables-Accrued Interest		2,681		2,681
Total Noncurrent Assets	342,907	790,520	2,424	1,135,851
Capital Assets:				
Land	73,624	54,928	8,134	136,686
Infrastructure			31,147	31,147
Buildings			98,539	98,539
Utility Plant in Service	1,989,092	6,432,122		8,421,214
Machinery and Equipment	95,703		60,978	156,681
Construction In Progress	305,234	330,672	2,098	638,004
Utility Property Leased		18,785		18,785
Nuclear Fuel - Net		291,439		291,439
Held for Future Use		12,599		12,599
Total	2,463,653	7,140,545	200,896	9,805,094
Less: Accumulated Depreciation	690,569	2,555,236	19,679	3,265,484
Net Capital Assets	1,773,084	4,585,309	181,217	6,539,610
Prepaid Rent Long Term-Leaseback		555,762		555,762
Unamortized Debt Expense	7,972	26,306		34,278
Total Assets	$ 2,169,002	$ 6,578,941	$ 224,063	$ 8,972,006

The accompanying notes are an integral part of these financial statements.

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—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2003
(In Thousands)

LIABILITIES	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTAL
Current Liabilities:				
Accounts Payable and Other Current Liabilities	$ 26,154	$ 176,525	$ 9,840	$ 212,519
Deferred Revenues			128	128
Notes Payable	525		2,347	2,872
Due to Other Governmental Agencies			1,702	1,702
Total Current Liabilities (Payable from Current Assets)	26,679	176,525	14,017	217,221
Current Liabilities (Payable from Restricted Assets):				
Accrued Bond and Certificate Interest	5,975			5,975
Current Portion of Bonds and Certificates	5,515	100,015		105,530
Other Payables	10,523		2,346	12,869
Total Current Liabilities (Payable from Restricted Assets)	22,013	100,015	2,346	124,374
Noncurrent Liabilities:				
Revenue Bonds (Net of Current Portion)	891,945	2,399,510		3,291,455
Commercial Paper	255,000	350,000		605,000
Less: Unamortized Premium (Discount) on New Series Bo	(14,058)	62,490		48,432
Plus: Unamortized Premium on New Series Bonds	8,318			8,318
Deferred Amount on Refunding	(25,280)	(159,744)		(185,024)
Long-Term Lease/Notes Payable	2,277	633,575	73,179	709,031
Other Payables	1,549	265,520	3,634	270,703
Total Noncurrent Liabilities	1,119,751	3,551,351	76,813	4,747,915
Total Liabilities	1,168,443	3,827,891	93,176	5,089,510
NET ASSETS				
Invested in Capital Assets, net of related debt	1,474,463	1,850,944	95,294	3,420,701
Restricted for Renewal and Replacement		577,705	1,593	579,298
Restricted for Debt Service	3,677		4,903	8,580
Restricted for Conservation	7,877			7,877
Unrestricted	(485,458)	322,401	29,097	(133,960)
Total Net Assets	$ 1,000,559	$ 2,751,050	$ 130,887	$ 3,882,496

The accompanying notes are an integral part of these financial statements.

—— CITY OF SAN ANTONIO, TEXAS ——

STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(In Thousands)

		Program Revenues		Net (Expense) Revenue and Changes In Net Assets			
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	SAN ANTONIO WATER SYSTEM	CITY PUBLIC SERVICE	NONMAJOR COMPONENT UNITS	TOTALS
San Antonio Water System	$ 239,208	$ 235,224	$ 76,928	$ 72,944	$	$	$ 72,944
City Public Service	1,319,190	1,301,493	53,431		35,734		35,734
Nonmajor Component Units	51,682	44,341	2,193			(5,148)	(5,148)
Total	$ 1,610,080	$ 1,581,058	$ 132,552	72,944	35,734	(5,148)	103,530
General Revenues:							
Investment Earnings				7,547	43,969	905	52,421
(Loss) on Disposal of Capital Assets				(860)		(4,211)	(5,071)
Miscellaneous					6,776	6,676	13,452
Total General Revenues				6,687	50,745	3,370	60,802
Change in Net Assets				79,631	86,479	(1,778)	164,332
Net Assets - Beginning				921,428	2,664,571	135,282	3,721,281
Prior Period Adjustment				(500)		(2,617)	(3,117)
Net Assets - Ending				$ 1,000,559	$ 2,751,050	$ 130,887	$ 3,882,496

The accompanying notes are an integral part of these financial statements.

TABLE OF NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of San Antonio (City) have been prepared in conformance with generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

A. Reporting Entity

In the evaluation of how to define the City for financial reporting purposes, management considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, "The Reporting Entity." The underlying concept of the financial reporting entity is that elected officials are "accountable" to their constituents for their actions. One of the objectives of this concept is to provide users of governmental financial statements with a basis for assessing the accountability of those elected officials, and accordingly, the definition of the financial reporting entity is based on accountability.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable (blended), and (c) component units, which the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statement No. 14 outlined below, potential component units were evaluated for inclusion or exclusion in the reporting entity, and further evaluated for financial statement presentation. Based on their individual relationships with the City, some component unit financial statements were blended as though they are part of the City and others only discretely presented.

The following criteria (as set forth in GASB Statement No. 14) were used in the evaluation of potential component units of the City:

1) Legally separate

2) Financial accountability
   a) Appointment of a voting majority
   b) Imposition of will
   c) Financial benefit to or burden on the City
   d) Fiscal dependency

3) The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete.

4) Service rendered by the potential component unit is provided entirely or almost entirely to the City.

The criteria outlined above were excerpted from GASB Statement No. 14. For a more detailed explanation of the criteria established by this Statement, we refer the reader to the Codification of Governmental Accounting and Financial Reporting Standards, as of June 30, 2003, published by GASB, Section 2600. Based upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity:

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended with the Primary Government (the relationship among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the Reporting Entity and is such that the financial statements are blended in with those of the City):

As set forth in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the City excludes fiduciary funds and component units that are fiduciary in nature from the government-wide financial statements. The City's component units that are fiduciary in nature are the San Antonio Fire and Police Pension Fund and the San Antonio Fire and Police Retiree Health Care Fund. These component units are presented in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

City of San Antonio Health Facilities Development Corporation

The City of San Antonio Health Facilities Development Corporation (HFDC) was established by Ordinance No. 55400, dated June 3, 1982, in accordance with state laws for the purposes of, and to act on behalf of, the City as a health facilities development corporation under the Texas Health Facilities Development Act of 1981. The HFDC is authorized to issue tax-exempt health facility revenue bonds, for which the City is not obligated in any manner, to finance health related projects in support of the promotion, expansion, and improvement of health facilities. The HFDC is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

City of San Antonio Industrial Development Authority

The City of San Antonio Industrial Development Authority (IDA) was established by Resolution No. 79-48-100 dated October 11, 1979, in accordance with state laws for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City as an industrial development corporation under the Development Corporation Act of 1979. The IDA is authorized to issue tax-exempt industrial revenue bonds, for which the City is not obligated in any manner, to finance qualified projects which may further the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The IDA is governed by a Board of Directors which is comprised of the City Council of the City of San Antonio.

San Antonio Fire and Police Pension Fund

The San Antonio Fire and Police Pension Fund (Pension Fund) is a Single Employer Defined Benefit Plan established in accordance with state law. The Pension Fund is administered by a nine member Board of Trustees, including three City Council members. The City and Pension Fund participants are obligated to make all contributions to the Pension Fund in accordance with rates established by state law. Benefit levels are also set by state law. Services rendered by the Pension Fund are exclusively for the benefit of eligible firefighters and police officers upon retirement.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Fire and Police Retiree Health Care Fund

The City of San Antonio Firefighters' and Police Officers' Retiree Prefunded Group Health Plan was created in October 1989, in accordance with the provisions of the City's contracts with the local fire and police unions, respectively, to provide post employment healthcare benefits to uniformed employees who retired on or after October 1, 1989. Pursuant to the passage of Senate Bill 1568 in 1997, a separate and distinct statutory trust, the Fire and Police Retiree Health Care Fund (Health Fund), was created to provide these post employment healthcare benefits for eligible uniformed employees of the City. The Health Fund is administered by a nine-member board of trustees, including three City Council Members, and is funded primarily by contributions from the City and contributions made by retirees on behalf of their dependents. City and retiree contribution rates are established pursuant to Fire and Police collective bargaining agreements.

City of San Antonio Texas Municipal Facilities Corporation

The City of San Antonio Texas Municipal Facilities Corporation (TMFC) was established in fiscal year 2001 in accordance with state law for the purposes of and to act on behalf of the City in acquisition, construction, equipping, financing, operation and maintenance of land and other municipal facilities for the City. The TMFC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

City of San Antonio Texas Starbright Industrial Development Corporation

The City of San Antonio Texas Starbright Industrial Development Corporation (TSIDC) was established in fiscal year 2003 in accordance with state law for the purposes of and to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare, including but not limited to the acquisition of land. The TSIDC is governed by a Board of Directors, which is comprised of the City Council of the City of San Antonio.

<u>Discretely Presented With the Primary Government</u> (the relationship among the following component units and the City is such that they meet the criteria, as set forth in GASB Statement No. 14, for inclusion in the reporting entity, and accordingly are included, however are such that the financial statements are discretely presented alongside, but not blended with those of the City):

San Antonio Water System

On February 13, 1992, the City Council determined it was in the best interest of the citizens of San Antonio and the customers served by the water and wastewater utilities to consolidate all water utilities, agencies, and activities into one institution. It was determined that the best mechanism for effecting the consolidation of all water systems, agencies, and activities into a single institution was through a refunding of all the then outstanding water and sewer bonds. The consolidation was consummated on May 19, 1992 with the creation of the San Antonio Water System (SAWS) which included the former City Water Board, Alamo Water Conservation and Re-use District, and the City's Sewer and Stormwater system.

Additionally, it was further determined by the City Council that the interests of the citizens and customers could best be served by placing authority for management and control of SAWS, as consolidated, in a Board of Trustees. This Board of Trustees includes the City's Mayor as an ex-officio member along with six members appointed by the City Council for four year staggered terms. The rates for user charges and bond issuance authorizations are approved by the City Council.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

City Public Service

City Public Service (CPS), a municipally owned utility, provides electricity and natural gas to San Antonio and the surrounding areas. CPS is governed by a Board of Trustees which is comprised of four members appointed by City Council and the Mayor of the City as an ex-officio member. The rates for user charges and bond issuance authorizations are approved by the City Council.

San Antonio Development Agency

The San Antonio Development Agency (SADA) was created under the provisions of the Urban Renewal Law of the State of Texas. SADA is responsible for implementing the City's Urban Renewal Program and may designate, for urban renewal, such areas, as it deems advisable, subject to approval by the City Council and the Federal Agency, which administers the overall program. SADA receives a majority of its operating funds from the City as pass-through grant funds and is governed by a seven member Board of Commissioners appointed by the City Council.

San Antonio Education Facilities Corporation

The City of San Antonio Higher Education Authority (SAHEA) was established in 1984, in accordance with state laws for the purpose of aiding nonprofit institutions of higher education in providing educational, housing, and other related facilities in accordance with and subject to the provisions of Section 53.35 (b) Texas Education Code, all to be done on behalf of the City and as its duly constituted authority and instrumentality. In 2001, the SAHEA changed its name to the San Antonio Education Facilities Corporation (SAEFC). The Act authorizes the SAEFC to issue revenue bonds for these purposes on behalf of the City but the bonds are not obligations of the City. SAEFC is governed by an eleven member Board of Directors appointed by the City Council for two-year terms. Board members are subject to removal by the City Council for cause or at will and the City reserves the right to terminate and dissolve the SAEFC at any time.

Greater Kelly Development Authority

The Greater Kelly Development Corporation (GKDC) was established in 1996 as the local development authority on an interim basis under the Development Corporation Act of 1979 for the development and redevelopment of Kelly Air Force Base (Kelly). In November 1999, the City established the Greater Kelly Development Authority (GKDA) as the successor-in-interest to the GKDC pursuant to the newly enacted Senate Bill 655. In accordance with the Act, the GKDA will have the powers previously enjoyed by the GKDC while at the same time clarifying such powers and preserving the property tax exempt status of prior commercial tenants at Kelly. The GKDA is a special district and political subdivision of the State of Texas and was established for the purpose of monitoring the proposed closing of Kelly; conducting comprehensive studies of all issues related to the closure, conversion, redevelopment, and future use of Kelly; reviewing all options relative to the most appropriate uses of Kelly and the surrounding area; formulating and adopting a comprehensive plan for the conversion and redevelopment of Kelly and submitting such plan to the appropriate agency or agencies of the federal government; and implementing such plan as it relates to Kelly and the surrounding area. The GKDA is governed by an eleven member Board of Directors, appointed by the City Council. The City Council also has the ability to remove appointed members of the organization's governing board at will. The GKDA is authorized to issue bonds to finance any project as permitted by Texas Law, but said bonds are not obligations of the City.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

San Antonio Housing Trust Foundation, Inc.

The San Antonio Housing Trust Foundation, Inc. (SAHTF) is a non-profit corporation incorporated in 1990 under the laws of the State of Texas. SAHTF was organized for the purposes of supporting charitable, educational, and scientific undertakings, specifically for providing housing for low and middle income families and to provide administrative and other support for the operations of the City of San Antonio Housing Trust Fund, a Permanent Fund of the City. The Housing Trust Fund was established by the City for the purposes of providing additional and continuing housing opportunities for low and moderate-income families; promoting public health, safety, convenience, and welfare; and revitalizing neighborhoods and the downtown area through appropriate housing activities. SAHTF is governed by an eleven member Board of Directors appointed by the City Council. SAHTF administers The San Antonio Housing Trust Finance Corporation. The City has the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the SAHTF as it authorizes an annual contract for the administration and management of the operations on an annual basis.

San Antonio Local Development Company, Inc.

The San Antonio Local Development Company, Inc. (SALDC) is a non-profit corporation organized in 1978 under the laws of the State of Texas and the auspices of the City. SALDC was formed to participate in the Neighborhood Business Revitalization Program (NBRP), which is co-sponsored by the Small Business Administration (SBA), the Economic Development Administration, and the U.S. Department of Housing and Urban Development (HUD). SALDC is governed by a thirty-three member Board of Trustees, appointed by the City Council, and an eleven member Board of Directors appointed from the Board of Trustees. SALDC, under agreement with the City, administers and operates a revolving loan fund, NBRP that provides qualifying local businesses with loans under economic development programs administered by the SBA. SALDC also administers, by agreement with the City, a U.S. Department of Commerce Title IX Revolving Loan Fund, SBA MicroLoan Program and a HUD 108 Fund. Currently, SALDC has an outstanding note payable to HUD, which is guaranteed by the City.

Brooks Development Authority

The Brooks Development Authority (BDA) is a special district and political subdivision of the State of Texas. It was established on September 27, 2001, as a defense base development authority in accordance with state law for the purposes of and to act on behalf of the City in improving mission effectiveness, reduce the cost of providing quality installation support through improved capital asset management and promote economic development on Brooks Air Force Base and in the surrounding community. An eleven member Board of Directors appointed by the City Council governs the BDA for two-year terms and will oversee the Brooks Technology and Business Park in support of the Brooks City-Base Project. The City has the ability to impose its will on this organization as the City Council has the power to remove board members by adopting a resolution.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Essential disclosures related to the above mentioned discretely presented and blended component units are included in the complete financial statements of each of the individual component units. These statements may be obtained at the respective entity's administrative office. The addresses are as follows:

Discretely Presented Component Units

San Antonio Water System
P.O. Box 2449
San Antonio, Texas 78298
Contact Person: Alex Hinojosa
Telephone No. (210) 704-7410

City Public Service
P.O. Box 1771
San Antonio, Texas 78296-1771
Contact Person: Richard E. Williamson
Telephone No. (210) 353-2397

San Antonio Development Agency
1400 S. Flores
San Antonio, Texas 78204
Contact Person: Felix Lopez
Telephone No. (210) 225-6833

San Antonio Education Facilities Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Greater Kelly Development Authority
143 Billy Mitchell Blvd., Ste 6
San Antonio, Texas 78226
Contact Person: Bruce Miller
Telephone No. (210) 362-7800

San Antonio Housing Trust Foundation, Inc.
2515 Blanco Rd.
San Antonio, Texas 78212
Contact Person: John Kenny
Telephone No. (210) 735-2772

San Antonio Local Development Company, Inc.
P.O. Box 830505
San Antonio, Texas 78283-0505
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

Brooks Development Authority
8030 Challenger Drive
Brooks City-Base, Texas 78235
Contact Person: Virginia Cobarrubias
Telephone No. (210) 536-6710

Blended Component Units

San Antonio Health Facilities Development Corporation
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Industrial Development Authority
P.O. Box 830504
San Antonio, Texas 78283-0504
Contact Person: Ramiro Cavazos
Telephone No. (210) 207-8040

San Antonio Fire and Police Retiree Health Care Fund
300 Convent Street, Suite 2500
San Antonio, Texas 78205
Contact Person: Paul Villarreal
Telephone No. (210) 220-1385

San Antonio Fire and Police Pension Fund
311 Roosevelt
San Antonio, Texas 78210-2700
Contact Person: Warren Schott
Telephone No. (210) 534-3262

San Antonio Texas Municipal
Facilities Corporation
P.O. Box 839966
San Antonio, Texas 78283
Contact Person: Milo Nitschke
Telephone No. (210) 207-8620

San Antonio Texas Starbright Industrial
Development Corp.
P.O. Box 839966
San Antonio, TX 78283
Contact Person: Milo Nitschke
Telephone No. (210) 207-8620

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

It is management's belief that to exclude essential disclosures from the City's financial statements as they pertain to CPS and SAWS would be misleading. CPS and SAWS have been identified as major discretely presented component units both as they relate to total component units and to the primary government. Therefore, relevant disclosures have been included in the City's financial statements. Discretely presented component units with different fiscal year ends from the City are the San Antonio Water System with a fiscal year end of December 31, and City Public Service with a fiscal year end of January 31.

Related Organizations

The City Council appoints the members to the Board of Directors for the San Antonio Housing Authority. However, the City's accountability for this entity does not extend beyond making appointments to the Board of Directors and the coordination and approval of strategic plans.

B. Basic Financial Statements – GASB Statement No. 34

Effective October 1, 2001, the City implemented the provisions of GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments". In fiscal year 2003, the City implemented the portion of GASB Statement No. 38, "Certain Financial Statement Note Disclosures" relating to the disaggregation of receivable and payable balances. These statements comply with the requirements of the new reporting model.

Government-wide and Fund Financial Statements

Under the new governmental financial reporting model, the basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities. As part of the implementation of GASB Statement No. 34, the City has opted to early implement infrastructure reporting. The implementation requires the historical cost of infrastructure assets, retroactive to 1980, to be included as part of the capital assets, as well as the related depreciation, to be reported in the government-wide financial statements. In addition, for the most part, the effect of interfund activity has been removed from the statements.

The Statement of Net Assets reflects both short-term and long-term assets and liabilities. In the Government-wide Statement of Net Assets governmental activities are reported separately from business type activities. Governmental activities are supported by taxes and intergovernmental revenues whereas business type activities are normally supported by fees and charges for services. Long-term assets, such as capital assets, infrastructure assets and long-term obligations are now reported with the assets of governmental activity. The components of net assets, previously shown as fund balances, are presented in three separate components; 1) Invested in Capital Assets, net of related debt, 2) Restricted, and 3) Unrestricted. Interfund receivables and payables between governmental and business type activities have been eliminated in the governmental-wide Statement of Net assets, which minimize the duplicating of assets and liabilities within the governmental and business type activities.
Major component units are reported in the statement of net assets as well.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – GASB Statement No. 34 (Continued)

Government-wide and Fund Financial Statements (Continued)

The Statement of Activities reflects both the gross and net cost format. The net cost (by function or business-type activity) is usually covered by general revenues (property tax, sales tax, intergovernmental revenues, etc.). Direct (gross) expenses of a given function or segment are offset by program revenues, and operating and capital grants. Program revenues must be directly associated with the function of business-type activity. The presentation allows users to determine which functions are self-supporting, and which rely on the tax base in order to complete their mission. Internal service fund balances, whether positive or negative have been eliminated against the expenses and program revenues shown in the governmental activities of the Statement of Activities.

A reconciliation detailing the change in net assets between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the internal service fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the internal service funds are reported in the governmental activity column.

The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets. The only reconciling item is the internal service fund allocation.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund equity and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The City has three types of Funds: Governmental Funds, Proprietary Funds and Fiduciary Funds. The Fund Financial Statements provide more detailed information about the City's most significant funds, but not on the City as a whole. Major individual governmental funds and major enterprise funds are reported separately in the Fund Financial Statements. Nonmajor funds are independently presented in the combining statements.

The criteria used to determine if a governmental or enterprise funds should be reported as a major fund is a follows: The total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type (that is, total governmental or total enterprise funds), and total assets and liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

The following is a brief description of the major governmental funds that are each presented in a separate column in the fund financial statements:

The General Fund is always presented as a major fund.

The Debt Service Fund accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs except that which is accounted for in proprietary type funds.

The following is a brief description of the major enterprise funds that are each presented in a separate column in the fund financial statements:

The Airport System accounts for the operation of the San Antonio International Airport and Stinson Municipal Airport. Financing for the Airport System operations is provided by user fees.

The Parking System accounts for the operations of the City's parking facilities. Financing for the Parking Facilities Operations is provided by user fees.

1. Governmental Funds

General Fund - The General Fund of the City is the primary operating fund, which accounts for all financial resources of the general government except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than private-purpose trusts and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

Permanent Funds - This fund is a new governmental fund type established by GASB Statement No. 34. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry.

2. Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

2. Proprietary Funds (Continued)

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis. The City's self-insurance programs, data processing programs, and other internal service programs are accounted for in this fund.

3. Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension Trust, Retiree Health Care Trust, Private Purpose Trust Funds, and Agency Funds. Pension Trust, Retiree Health Care Trust, and Private Purpose Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The statement of net assets and the statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year they are levied. Other taxes and fees are recognized as revenue in the year they are earned. Revenue from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Program Revenues are presented in the Government-wide Statement of Activities. The City reports program revenues into three categories: 1) Charges for services, 2) Operating grants and contributions and 3) Capital grants and contributions. (Further descriptions of these three categories follow.) They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by transactions with outside parties who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those funds to specific programs. Investment earnings that are legally restricted to specific programs are also reported as program revenues.

1) Charges for services are revenues that are generated by those who purchase goods or services from the City. Examples of charges for services include airport landing fees, solid waste collection and disposal fees, vacant lot clean up, golf course fees, and food establishment licenses. Fines and forfeitures are also reported under charges for services.

2) Operating grants and contributions are those revenues that are restricted in the way they may be spent - either for operations of a particular program or to purchase a capital asset for a particular program.

3) Capital grants and contributions are also restricted revenues; the funds may only be spent to purchase capital assets for specified programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

All governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. Revenues are recognized in the accounting period in which they become available and measurable. For this purpose, the City considers revenues, other than grants, to be available if the revenues are collected within sixty days after year-end. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider are met. Grant funds received in advance and delinquent property taxes are recorded as deferred revenue until earned and available. Gross receipts and sales taxes are considered available when in the hands of intermediary collecting governments and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain. Expenditures are recognized in the accounting period in which the fund liability is incurred. However, compensated absences, debt service expenditures, claims and judgments and arbitrage rebate are recorded only when the liability is matured.

The reported fund balance (net current assets) for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund inventories and prepaid expenditures to indicate that they do not represent "current financial resources", since they do not represent net current assets. Such amounts are generally offset by fund balance reserve accounts.

Proprietary, Pension Trust, Private Purpose Trust, and Retiree Health Care Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses and related liabilities, including claims, judgments, and compensated absences, are recognized when they are incurred. These funds are accounted for on a cost of services or "economic resources" measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. The reported Proprietary Fund net assets is segregated into three components: 1) invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses and Changes in Fund Net Assets. The City defines operating revenues as those receipts generated by a specified program offering either a good or service. For example, parking garage and street lot fees are operating revenues of the Parking Fund. This definition is consistent with GASB Statement No. 9 which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing or investing activities. Operating expenses include personnel services, contractual services, commodities, other expenses (such as insurance), and depreciation. Revenues and expenses not fitting the above definitions are considered nonoperating.

The City's enterprise funds, pension trust, private purpose trust and retiree health care funds and business-type activities, as well as its discretely presented component units apply all applicable GASB Statements as well as FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The City and its discretely presented major proprietary component units, CPS and SAWS, have elected not to apply any FASB Statements and Interpretations issued after November 30, 1989.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

CPS' operating revenue includes receipts from energy sales and miscellaneous revenue related to the electric and gas systems operations. This includes late payment fees, rental income, jobbing and contract work, ancillary services, and merchandise sales. Operating expenses include those expenses that result from the ongoing operations of the electric and gas systems. SAWS' principal operating revenues are charges to customers for water and wastewater services. Operating expenses include the cost of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues consist primarily of investment income, including the changes in fair value of investments. The amortization of net gains from the lease-leaseback and the sale of water rights in prior years are also included. Some miscellaneous income from renting general property and miscellaneous service is also recorded in nonoperating when it's not directly identified with the electric, gas, water and wastewater systems.

E. Future GASB Implementations

GASB Statement No. 39, *"Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14", provides criteria for determining whether certain organizations might be included in the financial reporting entity as component units based on the nature and significance of their relationship with the City, is effective for fiscal years beginning after June 15, 2003.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3, addresses deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The provisions of this Statement are effective for fiscal years beginning after June 15, 2004.

The City has not fully determined the effect that implementation of Statements No. 39 and No. 40 will have on the City's financial statements.

F. Cash, Cash Equivalents and Investments

The City's investment practices are governed by state statutes and by the City's Investment Policy. City cash is required to be deposited in FDIC-insured banks located within the State of Texas. A pooled cash and investment strategy is utilized which enables the City to have one central depository. Investments are pooled into two primary categories, operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount with principal and interest income distributed to each respective fund on a pro rata basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such fund. As of September 30, 2003, the City's investment portfolio did not contain any derivative products nor is it leveraged in any way, except as noted in the Fire and Police Pension Fund. For a listing of authorized investments, see Note 3.

The City, CPS and SAWS account for and report investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The Fire and Police Pension Trust and the Fire and Police Health Care Fund report investments at fair value in accordance with GASB Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The City's policy with respect to money market investments, which had a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments.

For purposes of the statement of cash flows, the City, SAWS and CPS consider all highly liquid investments with an original maturity of approximately ninety days or less to be cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories and Prepaid Items

Inventories of materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in, first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for inventories. Under the consumption method, inventory acquisitions are recorded in inventory accounts and charged as expenditures (governmental fund types) or expenses (proprietary fund types) when used.

Prepaid items are goods and services that are paid for in advance. These payments reflect costs applicable to future accounting periods, and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

H. Capital Assets and Depreciation

1. Primary Government (City)

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Capital assets recorded under capital leases are recorded at the present value of future minimum lease payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported on the Statement of Net Assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. With the implementation of GASB Statement No. 34, the City has established capitalization thresholds for infrastructure and machinery and equipment which include computer equipment. Retroactive reporting of all infrastructure assets is reported in the financial statements and the estimated useful lives and capitalization thresholds applied are as follows:

Assets	Useful Life Years	Capitalization Threshold
Buildings	15-40	$100
Improvements (Other than buildings)	20-40	$100
Machinery and Equipment	2-20	$5
Furniture and Office Equipment	5-10	$5
Infrastructure	15-100	$250

2. City Public Service (CPS)

The CPS utility plant is stated at the cost of construction, including costs of contracted services, direct equipment material and labor, indirect costs, including general engineering, labor, equipment, and material overhead, and an allowance for funds used during construction (AFUDC). CPS computes AFUDC using rates which approximate the cost of borrowed funds, or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to cost in excess of $250 and require thirty days or more to complete.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. City Public Service (CPS) (Continued)

CPS computes depreciation using the straight-line method over the estimated service lives of the depreciable property using specifically identified service lives for each asset type. In 2003, a depreciation study was conducted to determine if existing depreciation rates remained applicable to the depreciable property groups. Changes were found to needed which caused annual depreciation to increase $10.9 million in 2003 when compared to what depreciation would have been in 2003 without applying the new rates. Total depreciation and depletion as a percentage of total depreciable assets net of nuclear fuel was 3.36 percent in 2003.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. The charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 11.

3. San Antonio Water System (SAWS)

The SAWS' capital assets in service are recorded on the basis of cost. Assets acquired through capital leases are recorded on the cost basis and are included in utility plant service. Assets acquired through contributions, such as those from land developers, are capitalized and recorded in the plant accounts at estimated fair value at date of donation. SAWS capitalizes certain interest costs on revenue bonds and commercial paper associated with newly constructed utility plant additions. Maintenance, repairs, and minor renewals are charged to operating expense, while major plant replacements are capitalized.

SAWS' capital assets are depreciated and property under capital lease is amortized on the straight-line method. This method is applied to all individual assets except distribution mains. Groups of mains are depreciated on the straight-line method using rates estimated to fully amortize the costs of the asset group over their estimated average useful life. The following estimated average useful lives are used in providing for depreciation of the SAWS' capital assets:

Structures and improvements	50 years
Pumping and purification equipment	10 - 50 years
Distribution and transmission system	25 - 50 years
Collection system	50 years
Treatment facilities	25 years
Equipment and machinery	5 - 20 years
Furniture and fixtures	20 - 50 years
Computer equipment	5 years
Software	3 years

I. General Bonded Debt Service

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. Amounts estimated to be required for debt service on general bonded debt are provided by allocated property taxes, interest earned within the Debt Service Fund, and transfers from other funds.

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(amounts are expressed in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

In the governmental fund financial statements, the City accrues annual leave and associated employee related costs when matured (payable from available resources) for City non-uniformed employees and uniformed fire and police employees. In addition, the City accrues the matured portion of the City's uniformed fire and police employees accrued sick leave pay, holiday pay and bonus pay. Compensatory time is also accrued for the matured portion of the City's non-uniformed non-exempt employees as well as uniformed police officers.

For governmental fund types, the matured current portion of the liability resulting from the accrual of these compensated absences is recorded in the respective governmental fund and reported in the fund financial statements, while the entire vested liability is reported in the government-wide financials. The current and long-term portions of the liability related to proprietary fund types are accounted for in the respective proprietary fund.

K. Insurance

Activity for the City's self-insurance programs is recorded in the Internal Service Funds. Assets and obligations related to property and casualty liability, employee health benefits, workers' compensation, unemployment compensation, extended sick leave, and employee wellness are included.

The City is insured for property and casualty liability. As of the fiscal year end, Allianz Insurance Company insured the City's property, while the North River Insurance Company of New Jersey provided excess liability coverage. Related liabilities are accrued based on the City's estimates of the aggregate liability for claims made, and claims incurred but not reported prior to the end of the fiscal year.

The City also provides employee health, workers' compensation, and unemployment benefits under its self-insured programs. The City is a member of the Texas Municipal League Workers' Compensation Joint Insurance Fund, and uses this fund as a mechanism for administering workers' compensation claims for employees that occurred prior to September 30, 1986. Workers' compensation claims that occurred after October 1, 1986 are administered by third party administrators. In addition, the City has excess workers' compensation coverage through the North River Insurance Company as of September 30, 2003. The City records all workers' compensation loss contingencies, including claims incurred but not reported.

Employee health benefit liabilities are determined and accrued based upon the City's estimates of aggregate liabilities for unpaid benefits. Regarding unemployment compensation, the City is subject to the State of Texas Employment Commission Act. Under this act, the City's method for providing unemployment compensation is to reimburse the State for claims paid by the State.

All insurance carriers providing coverage for the City are required to possess an A.M. Best Company rating of A- or better; where A- denotes "Excellent". A.M. Best is an industry recognized rating service for insurance companies. For a more detailed explanation of the City's self-insurance programs, see Note 12.

L. Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund equity represent tentative plans identified by management and are subject to change. Designations are utilized in the City's governmental funds for amounts which have been designated for subsequent year's expenditures and amounts allocated to making future improvements and replacements. Such designations will be reflected on the fund financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Revenue Recognition

Governmental fund types record revenues on the modified accrual basis of accounting and are reported as such in the fund financial statements. That is, revenues are recorded when they are both measurable and available to finance current operations or when they are considered susceptible to accrual. Revenues from property taxes, sales taxes, municipal court fines and fees, licenses, interest revenue and charges for services are recorded on the modified accrual basis of accounting, and therefore, are considered susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. When collections are delayed beyond the normal time of receipt due to unusual circumstances, the amounts involved are still recognized as revenues of the current period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grant revenues are recognized when reimbursable expenditures are made and all other eligibility requirements imposed by the provider have been met. Proprietary-type funds record revenues when earned. In the government-wide financial statements, all revenues are recorded when earned.

CPS revenues are recorded when billed. Customers' meters are read and bills are rendered monthly. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue. SAWS revenues are recognized when earned under the accrual basis.

N. Allocation of Indirect Expenses

The City recovers indirect costs in the General Fund through the application of departmental indirect cost rates. These rates are developed and documented in the City's departmental indirect cost rate plan. In this plan, each department is classified by function. Indirect costs are budgeted by department and are used as a basis for the City's actual indirect cost allocation. Base rates are then applied to actual indirect costs recovered and indirect costs are reclassified to reduce general government expenditures. For fiscal year 2003, general government expenditures were reduced by $7,396, resulting in increased expenditures in other governmental functions and in business-type activities in the amounts of $4,565 and $2,831, respectively.

O. Nuclear Decommissioning

CPS, together with the other owners of the STP, filed with the Nuclear Regulatory Commission (NRC) a certificate of financial assurance for the decommissioning of the nuclear plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results estimated CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2003, CPS had accumulated approximately $183,300 of decommissioning funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amount of $69,100 at December 31, 2002 and $61,400 at December 31, 2001. Based upon the 1998 and 1994 decommissioning cost studies, the annual level funding into the trust of $15,900 for 2003 and 2002, was expensed by CPS.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts and debt issuance costs are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the funds in which proceeds of debt issuances are recorded.

Q. Elimination of Internal Activity

Eliminations of internal activity, particularly those related to internal service fund transactions, are needed to make the transition from governmental funds to government-wide activities. The overriding objective in "eliminating the effects of internal service fund activity" is to adjust the internal charges to cause a break-even result. Eliminating the "effect" of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. Net income derived from internal service fund activity would cause a pro rata reduction in the charges made to the participating funds/functions. Conversely, an internal service fund net loss would require a pro rata increase in the amounts charged to the participating funds/functions. Therefore, eliminations made to the statement of activities remove the "doubling up" effect of internal service fund activity. The residual internal balances between the governmental and business–type activities are reported in the statement of net assets and the internal balance amounts that exist within the governmental funds or within business-type funds are eliminated. The City reports internal service fund balances in both governmental and business-type activities based on the pro-rata share of the amounts charged to the participating funds/functions.

The City has three internal service funds: Other Internal Services, Information Technology Services, and Self-Insurance Funds. Other Internal Services and Information Technology Services charges users fees for requested goods or services. Building maintenance charges, a component of the Other Internal Services Fund, are based on the space occupied by departments. Through the tracking of these charges to the applicable departments, the net income or loss will be allocated back to the user department based on actual charges incurred.

The Self-Insurance Funds generate their revenues through fixed assessments charged to the various funds each year. The net income or loss generated by the Self-Insurance Funds is allocated back based on the same allocation by which the revenues are received.

R. Application of Restricted and Unrestricted Net Assets

The City may receive funding from an organization whose expenditure is restricted to certain allowable costs. In situations where both restricted and unrestricted net assets are expended to cover allowable expenses, the City will first expend the restricted net assets and cover additional costs with unrestricted net assets. The City reserves the right to selectively defer the use of restricted assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Other Budget Disclosures

Excess of expenditures, transfers and encumbrances over appropriations occurred as follows:

Excess of Expenditures, Transfers and Encumbrances Over Appropriations

Fund/Expenditures	Appropriations	Expenditures, Transfers and Encumbrances	Excess of Expenditures, Transfers and Encumbrances over Appropriations
General Fund:			
Health Services	$ 13,603	$ 13,815	$ 212
Sanitation	2,511	2,515	4
Special Revenue Funds:			
Alamodome	$ 8,267	$ 8,963	$ 696
Emergency Medical Services	38,046	38,786	740
International Center	810	815	5

With the exception of the Emergency Medical Services Fund, the excess expenditures over appropriations were fully offset by excess actual revenues or fund balances.

T. Prior Period Adjustments

A prior period adjustment for the San Antonio Water System has been made in the amount of $500 due to a recognition of a liability in the amount of $231, and an adjustment of prior year's revenue in the amount of $269.

A prior period adjustment for the Brooks Development Authority has been made in the amount of $2,635 due to the reduction of assets recorded in the prior year.

A prior period adjustment for the San Antonio Development Agency has been made in the amount of $18 to correct errors involving notes payable.

2. PROPERTY TAXES

Property taxes are levied and due upon receipt on October 1, attached as an enforceable lien on property as of January 1st, and become delinquent the following February 1st. Property tax receivables, including related interest and penalty receivable, net of allowances for uncollectible amounts, represent amounts the City believes will ultimately be collected. The portion of property tax receivable, net of allowances for uncollectible amounts, that is not considered available, is offset by deferred revenues in the governmental fund financial statements. The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to $2.50 per $100 of taxable valuation. The tax rate approved by City ordinance for the year ended September 30, 2003 was $0.57854 per $100 taxable valuation, which means that the City has a tax margin of $1.92146 per $100 taxable valuation and could raise an additional $798,089 per year based on the net taxable valuation of $41,535,547 before the limit is reached.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

City monies are deposited in demand accounts at the City's approved depository. The City utilizes a pooled cash and investment strategy with each fund's cash balance and pro rata share of highly liquid investments, including U.S. Treasury securities, U.S. Government Agency securities, and repurchase agreements with original maturities of ninety days or less, summarized by fund type and included in the combined statement of net assets as Cash and Cash Equivalents. Overdrafts which result from a fund overdrawing its share of pooled cash are reported as inter-fund payables by the overdrawn fund and as inter-fund receivables of the contributing funds.

Collateral is required for demand deposits and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations. Collateral pledged for demand deposits and certificates of deposit is required to be held in the City's name by the trust or safekeeping department of a bank other than the pledging bank.

Written custodial agreements are required which provide, among other things, that the collateral securities are held separate from the assets of the custodial banks. The City periodically determines that the collateral has a fair value adequate to cover the deposits and that the collateral has been segregated either physically or by book entry. At fiscal year-end, cash deposits for the City were entirely collateralized by the City's depository or federal depository insurance.

The City entered into repurchase agreements in connection with the investment of certain bond proceeds. Although these repurchase agreements are considered securities for purposes of credit risk classification, due to their 100% overnight liquidity, they are included with Cash and Cash Equivalents in the combined statement of net assets.

The investment policy of the City is governed by state statute and by its own written investment policy. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements. The City maintains in its investment portfolio U.S. Treasury securities and U.S. Government Agency securities with original maturities of more than ninety days. Each fund's pro rata share of these longer-term investments is combined with similar non-pooled securities (i.e., securities purchased and held for specific funds), including U.S. Treasury securities, and U.S. Government Agency securities, and are reported as investments in the combined statement of net assets, as of September 30, 2003.

The City accounts for and reports investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". The City's policy with respect to money market investments which have a remaining maturity of one year or less at the time of purchase is to report these investments at amortized cost. Amortized cost approximates fair value for these investments. The decrease in fair value for investments of the City with a remaining maturity of greater than one year at the time of purchase was $26 for the year ended September 30, 2003. The City does not participate in external investment pools.

Investments of the Fire and Police Pension Fund (Pension Fund), a blended component unit, are administered by the Fire and Police Pension Fund Board of Trustees. Investments of the Pension Fund are reported at fair value and include: corporate bonds; common stock; preferred stock; U.S. Treasury securities; U.S. Government Agency securities; notes, mortgages and contracts; and real estate. Equity and fixed income securities traded on a national or international exchanges are valued at the last reported sales price at current exchange rates. Notes, mortgages, and contracts are valued on the basis of future principal and interest payments discounted at prevailing interest rates. The fair value of real estate investments is based on independent appraisals and on the equity position of real estate partnerships in which the Pension Fund has invested. Gains and losses on sales and exchange of securities are recognized on the trade date. Investments that do not have an established fair value are reported at estimated fair value. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more in plan net assets.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Pension Fund has entered into an agreement with its custodial bank to lend the Pension Fund's securities to one or more borrowers for a fee. It is the policy of the Pension Fund and the custodial bank to require that collateral equal to 102% and 105% for domestic and international securities, respectively, of the loaned securities is maintained by the custodial bank. Collateral may be in the form of cash, U.S. government securities and irrevocable letters of credit. Until such time as the loan is terminated, the borrower retains all incidents of ownership with respect to the collateral. In the event that the borrower fails to repay the borrowed securities when due and the value of the collateral is insufficient to replace the borrowed securities, the Pension Fund may suffer a loss. Management of the Pension Fund considers the possibility of such a loss to be remote.

As of September 30, 2003, the Pension Fund had lending arrangements outstanding with a total fair value of $84,995, which were fully collateralized with cash and securities. Related to these loaned securities, cash collateral of $87,107 is recorded in the accompanying statements. Net income for the year ended September 30, 2003 under the securities lending arrangement was $244.

The Pension Fund has only limited involvement with derivative and other structured financial instruments and does not use them for trading purposes. The Pension Fund's investment philosophy in bond portfolios has centered on using derivatives and other structured financial instruments only when comparable cash alternatives are not available. Specifically, the Pension Fund has used the following basic guidelines when entering into such transactions: (1) small allocations, (2) no use of leverage, (3) price floors, (4) short maturities to mitigate potential problems with liquidity and (5) attention to credit risk of the issuer. The fair value of structured financial instruments held for the Pension Fund during fiscal year ended September 30, 2003 was approximately $59,357.

The Pension Fund periodically participates in options and futures in order to hedge the value of a portion of its investments. Financial options and futures are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. Total exposure on these options and futures of approximately $52,992 is included in net appreciation (depreciation) in fair value of investments at September 30, 2003.

The Fire and Police Retiree Health Care Fund Board of Trustees administers investments of the Fire and Police Retiree Health Care Fund, a blended component unit. Investments are reported at fair value and short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established fair value are reported at estimated fair value. All investment income, including changes in fair value of investments, is reported as additions in the statement of changes in post employment health care net assets. No investments in any one organization (other than those issued by the U.S. Government) represent five percent or more in plan net assets.

The investment policies of SAWS and CPS, the City's major discretely presented component units, are governed by state statute, local ordinance, and their own respective written investment policies. Authorized investments include: demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. Government Agencies, commercial paper, and repurchase agreements.

SAWS is permitted by City Ordinance No. 75686 to invest in time deposits or certificates of deposit secured in the manner required by law for public funds, or to invest in direct obligations of, including obligations for which the principal and interest are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or as otherwise permitted by SAWS' investment policy, which is governed by state statutes. SAWS' general depository agreement does not require SAWS to maintain an average monthly balance.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Under the provisions of GASB Statement No. 31, SAWS reports money market investments with a remaining maturity at time of purchase of one year or less at amortized cost, which approximates fair value. SAWS reports money market investments with a remaining maturity at time of purchase of greater than one year at amortized cost. As of December 31, 2002, the difference between the reported amount and fair value was $1,948; therefore, an unrealized gain was reported.

CPS cash deposits at January 31, 2003 were entirely insured by federal depository insurance or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name.

CPS investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments that mature within one year. CPS investments with a maturity date of one year or longer from the purchase date are accounted for using fair value. Fair value is determined by using generally accepted financial reporting services and publications and approved dealers and brokers as necessary. The specific identification method is used to determine costs in computing gain or loss on sales of securities.

CPS' allowable investments, excluding the Decommissioning Trust and the Employees Health and Welfare Plans, as defined by CPS Board Resolution and Policy, Bond Ordinances, Tax-Exempt Commercial Paper Ordinance, and State law include U.S. Government or Government Agency or U.S. Government guaranteed obligations, collateralized mortgage obligations issued by the U.S., fully secured certificates of deposit issued by a state, national bank, or savings bank domiciled in the State of Texas, direct repurchase agreements, reverse repurchase agreements, defined bankers acceptances and commercial paper, no-load money market mutual funds, and other types of specific secured or guaranteed investments.

CPS reports all South Texas Nuclear Project (STP) decommissioning master trust investments and employee health and welfare investments at fair value.

CPS' investments in the STP decommissioning master trust are held by an independent trustee. Trust investments are limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and State law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

Investments in the employee health and welfare plans are held by an independent trustee. These investments are limited to those authorized by the plans' Administrative Committees, the Trust Agreements, and State law. These investments are subject to market risk and their fair value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded. These investment policies follow the "prudent man" concept.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Combined cash and cash equivalents and investments are presented below as of year end for the City, and its significant discretely presented Component Units, SAWS and CPS. The information is provided to give an indication of the proportionate amount of cash and investments held by each respective entity.

Combined Cash, Cash Equivalents, and Investments

	City [1]	SAWS [2]	CPS [3]
Cash and Cash Equivalents	$ 430,621	$ 54,510	$ 319,204
Security Lending Collateral Cash and Cash Equivalents	95,492		
Investments	2,132,663	351,569	1,081,599
Less: Investments with original maturies of less than ninety days included in cash equivalents	(356,242)	(51,323)	(318,769)
Total	$ 2,302,534	$ 354,756	$ 1,082,034

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of $45,695; Security Lending Collateral-Cash and Cash Equivalents of $95,492; Investments of $1,395,818.

[2] For the fiscal year ended December 31, 2002

[3] For the fiscal year ended January 31, 2003

	City [1]	SAWS [2]	CPS [3]
Totals from Statement of Net Assets and Fiduciary Fund Statements			
Cash and Cash Equivalents	$ 345,779	$ 0	$ 239,703
Security Lending Collateral Cash and Cash Equivalents	95,492		
Investments	1,678,202	11,849	57,614
Restricted Cash and Cash Equivalents	84,842	54,510	79,501
Restricted Investments	98,219	288,397	705,216
Total Cash, Cash Equivalents and Investments	$ 2,302,534	$ 354,756	$ 1,082,034

[1] The following amounts were held by the City in a fiduciary capacity and are excluded from the primary government statement of net assets: Cash and Cash Equivalents of $45,695; Security Lending Collateral-Cash and Cash Equivalents of $95,492; Investments of $1,395,818.

[2] For the fiscal year ended December 31, 2002

[3] For the fiscal year ended January 31, 2003

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The composition of Cash and Cash Equivalents included in the financial statements for the City and its major discretely presented Component Units as of the respective year-ends is presented below.

	City	SAWS[1]	CPS[2]
Deposits with Financial Institutions	$ 36,178	$ 91,102	$ 318
Less: Deposits with Original Maturities of Greater than Ninety Days		(87,945)	
Investments with Original Maturities of Less than Ninety Days	356,242	51,323	318,769
Cash with Pension/Retiree Healthcare Fiscal Agents	37,983		
Cash with Other Financial Agents	29		
Petty Cash Funds	189	30	117
Total Cash and Cash Equivalents	$ 430,621	$ 54,510	$ 319,204

[1]For the fiscal year ended December 31, 2002
[2]For the fiscal year ended January 31, 2003

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Healthcare Fund of the City of San Antonio have been approved by the Funds' Board of Directors and are invested as authorized by Texas State Statutes.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits with financial institutions are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Deposits insured by the FDIC or collateralized with securities held by the City or the City's agent in the City's name.
2	Deposits collateralized by securities held by the pledging bank's agent in the City's name.
3	Deposits uncollateralized which include deposits collateralized by securities held by the pledging financial institution or by its trust department or agent but not in the City's name.

Accordingly, deposits of the City, SAWS and CPS are categorized by custodial credit risk as follows:

Units	Carrying Amount	Bank Balance	Category 1	Category 2	Category 3
City Deposits:					
With Financial Institutions	$ 36,178	$ 48,342	$ 48,342	$ 0	$ 0
Deposits with Agents	38,012	38,012	38,012		
SAWS Deposits:					
Demand and Savings Accounts	3,157	6,305	6,305		
Certificates of Deposits	87,945	87,945	87,945		
CPS Deposits:					
With Financial Institutions	318	7,939	7,939		

Cash with fiscal agents of the Fire and Police Pension Fund and the Fire and Police Retiree Health Care Fund of the City of San Antonio are classified as Category 1. The Fire and Police Pension Fund also had securities lending collateral - cash and cash equivalents in the amount of $95,492 which is not categorized for custodial credit risk as it had been invested in a securities lending collateral investment pool.

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(amounts are expressed in thousands)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments are classified into three categories of custodial credit risk based upon the following:

Category	Description
1	Includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name.
2	Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
3	Includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the City's name.

Accordingly, the investments of the City, SAWS, and CPS are categorized below to give an indication of the level of custodial credit risk assumed:

	Total Investments By Category - Category 1	Category 2	Category 3	Carrying Amount	Fair Value
City:					
Corporate Bonds	$ 128,957	$ 0	$ 0	$ 128,957	$ 128,957
Preferred Stock	1,179			1,179	1,179
Common Stock	825,071			825,071	825,071
U.S. Treasury & Government Agency Securities	826,887			826,887	827,971
Repurchase Agreements		16,999		16,999	16,999
Total Categorized Investments	1,782,094	16,999	0	1,799,093	1,800,177
Investments not Categorized:					
Money Market Mutual Fund				61,638	61,638
Notes, Mortgages, Contracts				120,105	120,105
Real Estate Investments				52,078	52,078
Venture Capital Partnerships and Other Alternative Investments				99,749	99,749
Total City	$ 1,782,094	$ 16,999	$ 0	$ 2,132,663	$ 2,133,747
SAWS:					
Wachovia Held in Escrow	$ 0	$ 25,232	$ 0	$ 25,232	$ 25,232
Bank One Held in Escrow		27,246		27,246	27,246
U.S. Treasury & Government Agency Securities	211,146			211,146	211,213
Total SAWS	$ 211,146	$ 52,478	$ 0	$ 263,624	$ 263,691
CPS:					
U.S. Treasury & Government Agency Securities	$ 773,960	$ 0	$ 0	$ 773,960	$ 774,248
South Texas Nuclear Project Decommissioning Master Trust:					
U.S. Treasury & Government Agency Securities	181,467			181,467	181,467
Employee Health and Welfare:					
Corporate bonds	19,951			19,951	19,951
Common stock	56,976			56,976	56,976
U.S. Treasury & Government Agency Securities	30,030			30,030	30,030
Global Bonds	7,553			7,553	7,553
Total Health and Welfare Investments Categorized	114,510			114,510	114,510
Investments not Categorized:					
Money Market Mutual Fund				11,662	11,662
Total Employee Health and Welfare	114,510			126,172	126,172
Total CPS	$ 1,069,937	$ 0	$ 0	$ 1,081,599	$ 1,081,887

(amounts are expressed in thousands)

4. CAPITAL ASSETS

Capital asset activity for governmental activities, to include Internal Services Funds, for the year ended September 30, 2003 was as follows:

Capital Assets - Governmental Activities

Governmental Activities:	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Non-Depreciable Assets					
Land	$ 1,215,391	$ 23,517	$ 0	$ 0	$ 1,238,908
Construction in Progress	524,898	98,600		(37,540)	585,958
Total Non-Depreciable Assets	1,740,289	122,117		(37,540)	1,824,866
Depreciable Assets					
Buildings	367,827			17,306	385,133
Improvements	59,589	376	(12)	9,961	69,914
Infrastructure	1,939,300	402		10,273	1,949,975
Machinery and Equipment	150,693	37,450	(11,182)		176,961
Total Depreciable Assets	2,517,409	38,228	(11,194)	37,540	2,581,983
Accumulated Depreciation					
Buildings	(134,361)	(11,753)			(146,114)
Improvements	(32,842)	(2,098)			(34,940)
Infrastructure	(1,080,544)	(64,104)			(1,144,648)
Machinery and Equipment	(71,794)	(15,558)	7,247		(80,105)
Total Accumulated Depreciation	(1,319,541)	(93,513) (1)	7,247 (1)	0	(1,405,807)
Total Depreciable Assets, net	1,197,868	(55,285)	(3,947)	37,540	1,176,176
Total Capital Assets, net [1]	$ 2,938,157	$ 66,832	$ (3,947)	$ 0	$ 3,001,042

(1) **Depreciation expense was charged to governmental functions as follows:**

General Government	$ 6,149
Public Safety	4,277
Public Works	63,335
Health Services	334
Welfare	364
Culture and Recreation	4,081
Convention and Tourism	22
Urban Redevelopment and Housing	4,208
Economic Development and Opportunity	4
Depreciation on capital assets held by the City's internal service funds is charged to various functions based on asset usage	10,739
Total Depreciation Expense for Governmental Activities	$ 93,513

[1] The capital assets of internal service funds are included in governmental activities. In fiscal year 2003, internal service fund capital assets increased by $14,092, decreased by $9,808, resulting in an ending balance of $106,850. Depreciation expense of $10,739 resulted in an ending accumulated depreciation balance of $63,790, to arrive at a net book value of $43,060.

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(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Capital asset activity for business-type activities for the year ended September 30, 2003 was as follows:

Capital Assets - Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Non-Depreciable Assets				
Land				
Aviation Fund	$ 2,970	$ 0	$ 0	$ 2,970
Parking Fund	8,125			8,125
Non-Major Funds	893			893
Total	11,988			11,988
Construction in Progress				
Aviation Fund	86,651	24,663	(13,837)	97,477
Parking Fund	10,916	679	(4)	11,591
Non-Major Funds	499	1		500
Total	98,066	25,343	(13,841)	109,568
Total Non-Depreciable Assets	110,054	25,343	(13,841)	121,556
Depreciable Assets				
Buildings				
Aviation Fund	112,133	3,524		115,657
Parking Fund	18,985			18,985
Non-Major Funds	46			46
Total	131,164	3,524		134,688
Improvements				
Aviation Fund	145,825	10,285		156,110
Parking Fund	1,639			1,639
Non-Major Funds	3,025			3,025
Total	150,489	10,285		160,774
Machinery and Equipment				
Aviation Fund	10,282	998	(1,048)	10,232
Parking Fund	759	1	(1)	759
Non-Major Funds	3,423	383	(32)	3,774
Total	14,464	1,382	(1,081)	14,765
Total Depreciable Assets	296,117	15,191	(1,081)	310,227
Accumulated Depreciation				
Buildings				
Aviation Fund	(48,510)	(2,637)		(51,147)
Parking Fund	(7,454)	(479)		(7,933)
Non-Major Funds	(227)	(1)		(228)
Total	(56,191)	(3,117)		(59,308)
Improvements				
Aviation Fund	(63,317)	(3,966)		(67,283)
Parking Fund	(503)	(73)		(576)
Non-Major Funds	(124)	(109)		(233)
Total	(63,944)	(4,148)		(68,092)
Machinery and Equipment				
Aviation Fund	(7,056)	(779)	927	(6,908)
Parking Fund	(710)	(24)		(734)
Non-Major Funds	(2,262)	(171)		(2,433)
Total	(10,028)	(974)	927	(10,075)
Total Accumulated Depreciation	(130,163)	(8,239)	927	(137,475)
Total Depreciable Assets, net	165,954	6,952	(154)	172,752
Total Capital Assets, net	$ 276,008	$ 32,295	$ (13,995)	$ 294,308

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(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

CPS and SAWS capitalize interest incurred on construction projects, in accordance with Statement of Accounting Standards No. 62 issued by the Financial Accounting Standards Board. CPS and SAWS capitalized construction period interest in the amount of $6,776 and $8,064, respectively. Capital asset activity for CPS and SAWS was as follows:

Capital Assets - City Public Service	Beginning Balance	Increases	Decreases	Ending Balance
City Public Service [1]				
Non-Depreciable Assets				
Land	$ 54,889	$ 40	$ (1)	$ 54,928
Land held for future use	12,599			12,599
Construction in Progress	190,717	279,894	(139,939)	330,672
Total Non-Depreciable Assets	258,205	279,934	(139,940)	398,199
Depreciable Capital Assets				
Utility Plant in Service	6,300,740	199,266	(67,884)	6,432,122
Utility Property Leased	18,785			18,785
Nuclear Fuel	269,902	21,537		291,439
Total Depreciable Assets	6,589,427	220,803	(67,884)	6,742,346
Accumulated Depreciation				
Utility Plant in Service	(2,154,330)	(216,971)	69,278	(2,302,023)
Utility Property Leased	(204)	(66)		(270)
Nuclear Fuel	(238,934)	(14,009)		(252,943)
Total Accumulated Depreciation	(2,393,468)	(231,046)	69,278	(2,555,236)
Total Depreciable Assets, net	4,195,959	(10,243)	1,394	4,187,110
Total Assets, net	$ 4,454,164	$ 269,691	$ (138,546)	$ 4,585,309

Capital Assets - San Antonio Water System	Beginning Balance	Increases	Decreases	Ending Balance
San Antonio Water System [2]				
Non-Depreciable Assets				
Land	$ 58,703	$ 15,262	$ (341)	$ 73,624
Construction in Progress	339,399	176,098	(210,263)	305,234
Total Non-Depreciable Assets	398,102	191,360	(210,604)	378,858
Depreciable Assets				
Utility Plant in Service	1,794,221	196,996	(2,125)	1,989,092
Machinery and Equipment	100,541	3,207	(8,045)	95,703
Total Depreciable Assets	1,894,762	200,203	(10,170)	2,084,795
Accumulated Depreciation				
Utility Plant in Service	(590,986)	(46,198)	2,124	(635,060)
Machinery and Equipment	(52,950)	(9,268)	6,709	(55,509)
Total Accumulated Depreciation	(643,936)	(55,466)	8,833	(690,569)
Total Depreciable Assets, net	1,250,826	144,737	(1,337)	1,394,226
Total Capital Assets, net	$ 1,648,928	$ 336,097	$ (211,941)	$ 1,773,084

[1] For the fiscal year ended January 31, 2003
[2] For the fiscal year ended December 31, 2002

(amounts are expressed in thousands)

4. CAPITAL ASSETS (Continued)

Construction-in-progress relating to the Capital Assets is comprised of the following:

Construction-In-Progress: Assets-Governmental Activities

	Project Authorization	Expended to Sept. 30, 2003	Committed	Required Future Financing
Buildings	$ 49,080	$ 24,965	$ 24,115	None
Streets and Bridges	178,070	131,349	46,721	None
Storm Drainage and Flood Prevention	134,468	118,797	15,671	None
Improvements Other Than Buildings	332,827	310,847	21,980	None
Total	$ 694,445	$ 585,958	$ 108,487	

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5. RECEIVABLES AND PAYABLES

A. Disaggregation of Receivables and Payables

Receivables

Net receivables at September 30, 2003 were as follows:

	Accounts	Taxes	Notes and Loans	Accrued Interest	Other	Total Net Receivables
Governmental Activities:						
General Government	$ 34,270	$ 47,331	$ 0	$ 742	$ 16	$ 82,359
Public Safety	11,537			2		11,539
Public Works	4,376			1,550	220	6,146
Health Services	62			11		73
Environmental Protection and Control	1			31		32
Culture and Recreation	461	2,929		29		3,419
Convention and Tourism	695	4,138				4,833
Conservation	20			5		25
Urban Redevelopment and Housing	878					878
Welfare	87		6,110	1		6,198
Economic Development Opportunity	66			164		230
Total - Governmental Activities	$ 52,453	$ 54,398	$ 6,110	$ 2,535	$ 236	$ 115,732
Business-type Activities:						
Airport System	$ 3,084	$ 0	$ 0	$ 19	$ 0	$ 3,103
Parking Facilities	26			4		30
Environmental Services	4,353			6		4,359
Total - Business-type Activities	$ 7,463	$ 0	$ 0	$ 29	$ 0	$ 7,492

The receivable balances for General Government, Public Safety, Environmental Protection and Control, Convention and Tourism, and Public Works Accounts have been reduced by the estimated allowance for doubtful accounts of $6,625, $61,013, $45, $168, and $81, respectively, and General Government Taxes of $2,279. The receivable balance for Business-type Activities (Airport System) has been reduced by the estimated allowance for doubtful accounts of $505.

The only receivables not expected to be collected within one year are $6,053 of notes and loans receivable in Welfare.

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(amounts are expressed in thousands)

5. RECEIVABLES AND PAYABLES (Continued)

A. Disaggregation of Receivables and Payables (Continued)

Payables

Payables at September 30, 2003 were as follows:

	Accounts	Accrued Payroll	Total Payables
Governmental Activities:			
General Government	$ 66,533	$ 1,671	$ 68,204
Public Safety	9,816	4,865	14,681
Public Works	6,879	160	7,039
Sanitation		34	34
Health Services	89	186	275
Culture and Recreation	1,672	814	2,486
Convention and Tourism	6,083		6,083
Urban Redevelopment and Housing	9,474	663	10,137
Welfare	2	220	222
Economic Development Opportunity	1,677	82	1,759
Total - Governmental Activities	$ 102,225	$ 8,695	$ 110,920
Business-type Activities:			
Airport System	$ 5,004	$ 306	$ 5,310
Parking Facilities	82	72	154
Environmental Services	3,415	420	3,835
Total - Business-type Activities	$ 8,501	$ 798	$ 9,299

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(amounts are expressed in thousands)

5. RECEIVABLES AND PAYABLES (Continued)

B. Interfund Receivable and Payable Balances

The following is a summary of interfund receivables and payables for the City as of September 30, 2003:

Summary Table of Interfund Receivables and Payables
As of September 30, 2003

	Due From Other Funds	Due To Other Funds
General Fund:		
Fiduciary Funds	$ 331	$ 0
Internal Service Funds	286	75
Nonmajor Governmental Funds	23,593	45
Total General Fund	24,210	120
Debt Service Funds:		
Nonmajor Governmental Funds	893	
Total Debt Service Funds	893	
Airport System Fund:		
Airport I&C Fund from the Airport Operating Fund	270	96
Airport I&C Fund from the Airport Debt Service Fund	66	
Airport Operating Fund to the Airport I&C Fund	96	270
Airport Debt Service Fund to the Airport I&C Fund		66
Nonmajor Governmental Funds		72
Internal Service Funds		7
Total Airport System Fund	432	511
Fiduciary Agency Funds:		
General Fund		331
Nonmajor Governmental Funds		71
Total Fiduciary Agency Funds		402
Internal Service Funds:		
General Fund	75	286
Airport Fund	7	
Internal Service Funds	9,395	9,395
Nonmajor Governmental Funds	288	
Nonmajor Enterprise Funds	6	
Total Internal Service Funds	9,771	9,681
Nonmajor Governmental Funds:		
General Fund	45	23,593
Debt Service Funds		893
Airport Fund	72	
Fiduciary Agency Funds	71	
Internal Service Funds		288
Nonmajor Governmental Funds	1,985	1,985
Total Nonmajor Funds	2,173	26,759
Nonmajor Enterprise Funds:		
Nonmajor Enterprise Funds	322	322
Internal Service Funds		6
Total Nonmajor Enterprise Funds	322	328
Total	$ 37,801	$ 37,801

(amounts are expressed in thousands)

5. RECEIVABLES AND PAYABLES (Continued)

B. Interfund Receivable and Payable Balances (Continued)

As of September 30, 2003, the balances represent short-term loans resulting from (1) timing differences between the dates that transactions are recorded in the accounting system and (2) short-term borrowings at year end. Of the $24,210 due from other funds in the General Fund, $20,643 is a result of overdraws of pooled cash.

6. LONG-TERM DEBT

A. Primary Government (City)

1. Governmental Activity Long-Term Debt

The City's on-going capital improvement financing for infrastructure and "quality of life" purposes resulted in the issuance of additional indebtedness during fiscal year 2003. In December 2002, the City issued the following: $55,850 General Improvement and Refunding Bonds, Series 2002 and $69,930 Combination Tax and Revenue Certificates of Obligation, Series 2002. The bonds are secured by a pledge of ad valorem taxes while the certificates are secured by a pledge of ad valorem taxes and revenues from certain revenue generating operations.

The General Improvement and Refunding Bonds, Series 2002 were utilized to refund a portion of the City's outstanding tax supported debt, fund capital improvement projects to include streets and pedestrian improvements; drainage improvements; parks and recreation facilities improvements; library system improvements; and public safety improvements. The Series 2002 General Improvement and Refunding Bonds are retired serially in the years 2003 through 2023 and bear interest rates ranging from 2.000% to 5.500%.

A portion in the amount of $25,581 of the net proceeds from the sale of the 2002 General Improvement and Refunding Bonds, including $1,161 of the original issue premium, was applied to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2002 refunding, the City will realize a total reduction of $1,462 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,005.

Proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2002 will be utilized to fund capital improvements to include public safety, including constructing new fire stations and renovating and improving existing fire stations; street, sidewalk, bridge, and drainage improvements; improvements and renovations to existing municipal facilities; acquiring, constructing, renovating the City's library system; the construction of public improvements relating to KellyUSA and Brooks City-Base, including street and drainage improvements; construction of park improvements; the purchase of materials, supplies, machinery, land, and rights-of-way for authorized needs and purposes relating to public safety, drainage, street and public work purposes; the implementation of a new Enterprise Resource Management System, including development and installation costs relating thereto; and professional services related to the construction and financing of the aforementioned projects. The certificates are retired serially in the years 2004 through 2023 and bear interest rates ranging from 3.000% to 5.500%.

Additionally, in May 2003, the City issued $40,905 of General Improvement Refunding Bonds, Series 2003. Delivery of the bonds occurred on May 8, 2003, and they are secured by a pledge of ad valorem taxes. These obligations were issued to refund $43,200 of outstanding long-term debt. The obligations bear interest ranging from 2.750% to 5.000% and will be retired serially in the years 2004 through 2014.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The net proceeds from the sale of the 2003 General Improvement Refunding Bonds, which included an original issue premium of $2,995, were applied, together with a cash contribution from the City, to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2003 refunding, the City will realize a total reduction of $1,793 in debt service payments. Through the transaction, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,683.

Also, in May 2003, the City issued $44,150 of Municipal Drainage Utility System Revenue Bonds, Series 2003. Delivery of the bonds occurred on May 21, 2003. Pursuant to authority conferred by the Municipal Drainage Utility System Act, the City Council adopted an ordinance in 1993 declaring the drainage of the City to be a public utility, enabling the City to bill, along with other municipal utility system billings, a separate charge to lots and tracts of benefited property in the City for drainage services. Revenues of the System are pledged to the payment of the Bonds to the extent and in the manner specified in the ordinance. The obligations bear interest ranging from 2.000% to 5.000% and will be retired serially in the years 2004 through 2028.

Proceeds of the 2003 Municipal Drainage Utility System Revenue Bonds will be used to finance the costs of making drainage improvements, including the acquisition, construction, and repair of structures, equipment, and facilities for the City's Municipal Drainage Utility System (the "System").

In addition, in July 2003, the City issued $56,515 of General Improvement Refunding Bonds, Series 2003-A. Delivery of the bonds occurred on July 16, 2003; they are secured by a pledge of ad valorem taxes. The obligations bear interest ranging from 2.000% to 5.000% and will be retired serially in the years 2006 through 2016. These obligations were issued to refund $57,930 of outstanding long-term debt, of which $57,105 was reported in governmental funds and $825 was reported in proprietary funds.

The net proceeds from the sale of the 2003-A General Improvement Refunding Bonds, which included an original issue premium of $7,307, were applied, together with a cash contribution from the City, to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2003-A refunding, the City will realize a total reduction of $5,588 in debt service payments, of which $5,506 is governmental. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $3,846, of which $3,787 is classified governmental.

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6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

The following table is a summary of changes for the year ended September 30, 2003 for Governmental Activity Debt:

Governmental Activity Long-Term Debt (Ad Valorem Tax Pledge)

Issue	Original Amount	Final Principal Payment	Interest Amount (%)[1]	Balance Outstanding October 1, 2002	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2003
General Obligation Bonds:[1]							
1988 Refunding	$ 132,978	2006	7.250-7.400	$ 4,008	$	$ 0	$ 4,008
1993 Refunding	93,680		4.000-8.000	71,095		71,095	-
1994	30,450	2004	6.000	2,650		1,300	1,350
1996	35,330	2004	5.100	27,100		23,925	3,175
1996A Refunding	82,235	2016	4.650-6.000	74,180		23,025	51,155
1996B Refunding	6,030	2008	6.700	3,910		540	3,370
1998	30,855	2018	4.500-5.000	28,610		825	27,785
1998 Forward Refunding	53,950	2008	5.500-6.000	36,920		7,790	29,130
1998A Refunding	47,955	2019	4.000-5.250	46,185		3,075	43,110
1999	12,000	2020	5.500-6.000	11,640		380	11,260
2000	27,565	2020	4.500-5.000	26,655		950	25,705
2000A	15,615	2021	5.250-5.375	15,615		455	15,160
2001	84,945	2022	3.000-5.250	84,660		630	84,030
2002 Forward Refunding	239,910	2013	4.500-5.250	236,245		20,365	215,880
2002	55,850	2023	3.000-5.500		55,850	600	55,250
2003	40,905	2014	2.750-5.000		40,905		40,905
2003A	55,710	2016	2.000-5.000		55,710		55,710
Subtotal	$ 1,045,963			$ 669,473	$ 152,465	$ 154,955	$ 666,983
Tax-Exempt Commercial Paper:							
Series 2001	$ 32,700	2004	0.750-3.500	$ 20,800	$	$ 10,300	$ 10,500
Tax-Exempt Certificates of Obligation:							
Series 1994	$ 9,900	2004	6.000	$ 885	$	$ 420	$ 465
Series 1996	8,415	2005	5.100-5.200	6,475		5,700	775
Series 1996A	12,515	2006	4.600-4.750	9,870		8,205	1,665
Series 1998	4,315	2018	4.700-5.000	3,415		330	3,085
Series 1998A	36,535	2019	4.000-5.250	32,025		1,620	30,405
Series 1999	4,230	2020	5.750-6.000	4,105		135	3,970
Series 2000	8,490	2020	4.500-5.000	8,210		295	7,915
Series 2000A	8,810	2021	5.250-5.375	8,810		255	8,555
Series 2000C	6,415	2020	5.000-5.500	6,415			6,415
Series 2001	65,195	2014	4.000-5.250	65,195		2,095	63,100
Series 2002	69,930	2023	3.000-5.500		69,930		69,930
Subtotal	$ 234,750			$ 145,405	$ 69,930	$ 19,055	$ 196,280
Taxable Certificates of Obligation:							
Series 1996	$ 6,160	2009	6.550-6.650	$ 2,050	$	$ 225	$ 1,825
Series 1996B	7,375	2008	6.550-6.800	5,975		4,345	1,630
Series 2000B	1,755	2021	7.450-7.550	1,755		45	1,710
Subtotal	$ 15,290			$ 9,780	$	$ 4,615	$ 5,165
Revenue Bonds:[2]							
Series 1996 Occupancy Tax	$ 182,012	2026	4.900-6.000	$ 179,393	$	$ 2,045	$ 177,348
Series 2003 Muni. Drainage	44,150	2028	2.000-5.000		44,150		44,150
Series 2001 Municipal Facilitiy Corp.	14,465	2020	3.625-5.200	13,955		535	13,420
Subtotal	$ 240,627			$ 193,348	$ 44,150	$ 2,580	$ 234,918
	$ 1,569,330			$ 1,038,806	$ 266,545	$ 191,505	$ 1,113,846

1 Accretion of interest on the 1988 General Improvement Refunding Bonds through Fiscal Year 2003 has resulted in an increase of $7,652 in General Obligation Bonds Payable. This increase is reflected on the Combined Balance Sheet but is not shown on the above table.

2 A portion of the Hotel Occupancy Tax Revenue Bonds, Series 1996 was sold as Capital Appreciation Bonds (CABS). Interest on the CABS will accrete from the date of delivery and will be payable only at maturity or redemption. The interest accreted through fiscal year 2003 has resulted in an increase of $13,079 in Revenue Bonds Payable. This increase is reflected on the Combined Balance Sheet but is not shown on the above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Annual Requirements

The annual requirements to amortize all General Obligation Bonds, Tax Exempt Commercial Paper, Certificates of Obligation, and Revenue Bonds outstanding as of September 30, 2003, are as follows:

Principal and Interest Requirements

Year Ending September 30,	General Obligation Bonds		Tax Exempt Commercial Paper		Certificates of Obligation		Revenue Bonds		Total Annual Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2004	$ 47,085	$ 33,170	$ 10,500	$ 11	$ 10,920	$ 9,820	$ 4,370	$ 11,227	$ 127,103
2005	43,844	35,612			11,225	9,334	5,150	11,042	116,207
2006	44,684	33,592			11,370	8,829	5,955	10,807	115,237
2007	49,670	26,610			13,650	8,250	6,855	10,489	115,524
2008	51,745	24,127			14,305	7,581	7,820	10,152	115,730
2009-2013	244,240	80,204			79,605	26,790	36,544	63,388	530,771
2014-2018	115,055	31,865			36,550	10,561	35,549	70,200	299,780
2019-2023	70,660	7,229			23,820	2,622	73,745	28,468	206,544
2024-2028							58,930	6,930	65,860
Total	$ 666,983	$ 272,409 [1]	$ 10,500	$ 11	$ 201,445	$ 83,787	$ 234,918 [1]	$ 222,703	$ 1,692,756

Total Principal & Interest Payable Within One Year

	General Obligation Bonds	Tax Exempt Commercial Paper	Certificates of Obligation	Revenue Bonds	Total Annual Requirements
Principal	$ 47,085	$ 10,500	$ 10,920	$ 4,370	$ 72,875
Interest	33,170	11	9,820	11,227	54,228
Total	$ 80,255	$ 10,511	$ 20,740	$ 15,597	$ 127,103

1 Accretion of interest on the 1998 General Improvement Bonds through the year ended September 30, 2003 has resulted in an increase of $7,652 in General Obligation Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

2 A portion of the Hotel Motel Occupancy Tax Revenue Bonds (Series 1996) was sold as Capital Appreciation Bonds (CABS). Interest on the CABS accretes from the date of delivery and will be payable only at maturity or redemption. The interest accreted through September 30, 2003 has resulted in an increase of $13,079 in Revenue Bonds Payable. Total interest to be accreted is reflected in the interest portion of the above table.

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

1. Governmental Activity Long-Term Debt (Continued)

Authorized But Unissued General Obligation Debt

Authorization Date	Purpose	Amount Authorized	Bonds Previously Issued	Bonds Authorized But Unissued
1-26-80 [1]	Drainage and Flood Control	$ 21,637	$ 17,413	$ 4,224
1-26-80 [1]	Fire Protection	4,257	2,125	2,132
1-26-80 [1]	Libraries	4,978	3,926	1,052
1-26-80 [1]	Street, Bridge, and Related Improvements	43,287	34,035	9,252
5-07-94	Street Improvements	25,600	25,600	
5-07-94	Drainage Improvements	34,400	34,400	
5-07-94	Parks and Recreation	41,600	41,600	
5-01-99	Streets and Pedestrian Improvements	41,300	41,300	
5-01-99	Drainage	19,000	19,000	
5-01-99	Flood Control	12,200	12,200	
5-01-99	Parks and Recreation	24,200	24,200	
5-01-99	Library System	13,200	13,200	
5-01-99	Public Safety	30,300	30,300	
Total		$ 315,959	$ 299,299	$ 16,660

[1] In addition to the debt authorized on May 1, 1999, the City has authority pursuant to an election held on January 26, 1980 to issue $16,660,000 in bonds. The City does not currently intend to issue the bonds authorized in 1980.

Debt Limitation

The amount of debt that the City may incur is limited by City Charter and by the Constitution of the State of Texas. The City Charter establishes a limitation on the general obligation debt supported by ad valorem taxes to an amount not to exceed 10% of the total assessed valuation. The total assessed valuation for the fiscal year ending 2003 was $46,320,796 which provides a debt ceiling of $4,632,080. The total outstanding debt that is secured by an ad valorem tax pledge is $881,038.

The Constitution of the State of Texas provides that the ad valorem taxes levied by the City for debt service and maintenance and operation purposes shall not exceed $2.50 for each one hundred dollars of assessed valuation of taxable property. There is no limitation within the $2.50 rate for interest and sinking fund purposes; however, it is the policy of the Attorney General of the State of Texas to prohibit the issuance of debt by a city if such issuance produces debt service requirements that exceed the amount that can be paid from $1.50 tax rate calculated at 90% collections.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

Interfund Borrowings

As an alternative to the issuance of external debt to finance certain projects/purchases, the City has determined that the use of available cash balances in the Internal Service Equipment Replacement Funds is a viable option. In certain instances, after an evaluation of project/purchase funding requirements, it has been determined that some funds or operations may require temporary financing. As an option, the City has authorized such internal temporary financing from available cash balances in the Internal Service Equipment Replacement Funds to meet these needs.

In June 1999, a loan was authorized from the City's Internal Service Fund to the International Center Special Revenue Fund to assist in the financing of permanent building improvements and leasing agent commissions. The principal amount of the note is $200 with an annual interest rate of 6% and a repayment period of October 1999 through September 2003. In December 1999, a second loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is $137 with an annual interest rate of 6% and a repayment period of December 1999 through September 2003. In September 1999, a third loan was authorized from the City's Internal Service Fund to the International Center Fund to cover additional permanent building improvements. The principal amount of the note is $62 with an annual interest rate of 6% and a repayment period of April 2000 through September 2003. Revenues from the International Center rentals will be utilized to meet the annual principal and interest requirements of the notes. As of September 30, 2003, the remaining balance for the notes payable from the International Center Fund was paid in full.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

Leases

The City leases property and equipment from others. Leased property having elements of ownership are recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property, not having elements of ownership, are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when matured in the governmental fund financial statements. Total expenditures for operating leases for the fiscal year ended September 30, 2003 were approximately $3.6 million.

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for governmental activities are as follows:

Asset:		
Machinery and Equipment	$	15,850
Less: Accumulated Depreciation		(3,061)
Total	$	12,789

As of September 30, 2003, the City (excluding discretely presented component units) had future minimum lease payments under capital and operating leases with a remaining term in excess of one year for governmental activities as follows:

Leases - Governmental Activities

	Capital Leases	Operating Leases	Total
Governmental Activities:			
Fiscal year ending September 30:			
2004	$ 3,535	$ 3,085	$ 6,620
2005	3,066	2,483	5,549
2006	1,724	2,271	3,995
2007	1,379	1,147	2,526
2008	725	652	1,377
2009-2013		3,417	3,417
2014-2018		3,249	3,249
2019-2023		2,301	2,301
2024-2028		182	182
Future Minimum Lease Payments	10,429	$ 18,787	$ 29,216
Less: Interest	(633)		
Present Value of Future Minimum Lease Payments	9,796		
Less: Current Portion	(3,235)		
Capital Leases, net of current portion	$ 6,561		

(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt

Proprietary long-term debt applies to those City operations that relate to business and quasi-business activities where net income and capital maintenance are measured (Enterprise and Internal Service Funds). Long-term debt, which is to be repaid from proprietary funds resources, is reported in the respective proprietary fund. The long-term indebtedness of the City's Enterprise Funds is presented in the discussion that follows.

Airport System: The Airport System includes the City of San Antonio International Airport and Stinson Municipal Airport and all land, buildings, structures, equipment, and facilities pertaining thereto. The Airport System's long-term debt is equally and ratably secured solely by a first lien on and pledge of the Gross Revenues of the Airport System. Gross Revenues of the Airport System include all revenues of any nature derived from contracts or use agreements with airlines and other users of the System and its facilities.

On April 19, 2001, the City Council approved the sale of the City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003. Delivery of these obligations occurred on April 8, 2003. The principal amount is $50,230 with maturities from 2004 through 2013, and interest rates from 5.50% to 6.00%. These bonds are special obligations of the City payable from gross revenues of the City's airport system. Proceeds will be combined with a cash contribution from the City and used to refund other Airport System obligations. As a result of the 2003 refunding, the city will realize a reduction of debt service payments of $3,334 and obtained an economic gain of $2,551.

On March 20, 2003, the City Council approved the sale of the City of San Antonio, Texas Airport System Forward Refunding Revenue Bonds, Series 2003A and Series 2003B. Delivery of these obligations occurred on May 1, 2003. The principal amount for the Series 2003A is $8,175 with maturities from 2003 to 2006, and an interest rate from 2.00% to 2.25%. The principal amount for the Series 2003B is $3,255 with maturities from 2007 to 2009, with an interest rate from 2.30% to 3.00%. These bonds are special obligations of the City payable from gross revenues of the City's airport system. Proceeds will be combined with a cash contribution from the City and used to refund other Airport System obligations. As a result of the 2003A and 2003B refunding, the City will realize a total reduction of $793 in debt service payments and obtained an economic gain of $741.

Parking System: The Parking System operation includes the ownership and operation of parking facilities, parking lots, parking meters and retail/office space. Long-term debt is allocated to the Parking System on a pro-rata basis from proceeds received from the issuance of general obligation and certificate of obligation debt and is paid from revenues derived from the operation of the Parking System. This allocated debt is additionally secured by an ad valorem tax pledge. The bonds are payable from and secured by a first lien on and a pledge of the gross revenues derived from the ownership and operation of the City's Parking system. The bonds are retired serially in years 2004 to 2024 and bear interest rates from ranging from 5.000% to 5.750%.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

In July 2003, the City issued $56,515 of General Improvement Refunding Bonds, Series 2003-A. Delivery of the bonds occurred on July 16, 2003. The obligations bear interest ranging from 2.000% to 5.000% and will be retired serially in the years 2006 through 2016. These obligations were issued to refund $57,930 of outstanding long-term debt, of which $57,105 was reported in governmental funds and $825 was reported in proprietary funds.

The net proceeds from the sale of the 2003-A General Improvement Refunding Bonds, which included an original issue premium of $7,307, were applied, together with a cash contribution from the City, to fund an escrow fund for the redemption, discharge, and defeasance of the refunded obligations. As a result of the 2003-A refunding, the City will realize a total reduction of $5,588 in debt service payments, of which $82 will be realized by the Parking Fund. Through the transactions, the City obtained a total economic gain (difference between the present values of the debt service payments on the old and new debt) of $3,846, of which $59 will be realized by the Parking Fund. Total annual principal and interest requirements for the Parking System are shown in the table at the end of this section.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

The following table is a summary of changes in revenue bonds, general obligation bonds and tax-exempt certificates of obligation for the fiscal year ended September 30, 2003.

Proprietary Long-Term Debt

Issues	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding October 1, 2002	Additions During Year	Deletions During Year	Balance Outstanding September 30, 2003
Airport System							
Revenue Bonds:							
Series 1992 Refunding	$ 3,130		6.100	$ 3,130	$ 0	$ 3,130	$ 0
Series 1992	21,655		5.500-5.750	7,955		7,955	
Series 1993 Refunding	73,785		7.000-7.375	52,460		52,460	
Series 1996	38,000	2014	5.700-5.750	18,950		325	18,625
Series 2001	17,795	2016	5.375	17,795			17,795
Series 2002	92,470	2027	5.000-5.750	92,470			92,470
Series 2002 PFC	37,575	2027	4.000-5.750	37,575		775	36,800
Series 2003 Refunding	50,230	2013	5.500-6.000		50,230		50,230
Series 2003-A	8,175	2006	2.000-2.250		8,175	1,930	6,245
Series 2003-B	3,255	2009	2.300-3.000		3,255		3,255
Subtotal	$ 346,070			$ 230,335	$ 61,660	$ 66,575	$ 225,420
Parking System							
Revenue Bonds:							
Series 2000	$ 24,845	2024	5.000-5.750	$ 24,845	$ 0	$ 0	$ 24,845
General Obligation Bonds:							
Series 1996A Refunding	495	2014	4.650-6.000	495		120	375
Series 1998A Refunding	1,155	2013	4.000-5.250	1,155		105	1,050
Series 2002 Refunding	11,370	2013	4.000-5.250	11,205		960	10,245
Series 2003A Refunding	805	2016	2.000-5.000		805		805
Tax Exempt Certificates of Obligation							
Series 1994	700	2004	6.000	65		30	35
Series 1996	1,105	2005	5.100-5.200	850		750	100
Subtotal	$ 40,475			$ 38,615	$ 805	$ 1,965	$ 37,455
Total	$ 386,545			$ 268,950	$ 62,465	$ 68,540	$ 262,875

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

The annual requirements to amortize long-term debt for the City's Enterprise Funds related to revenue bonds, general obligations, and certificates of obligation outstanding at September 30, 2003, are as follows:

Proprietary Long-Term Debt

Year End	Airport System			Parking System		
Sept. 30:	Principal	Interest	Total	Principal	Interest	Total
2004	$ 7,010	$ 12,057	$ 19,067	$ 1,590	$ 1,994	$ 3,584
2005	8,390	11,754	20,144	1,670	1,914	3,584
2006	8,790	11,381	20,171	1,760	1,831	3,591
2007	8,750	10,987	19,737	1,830	1,744	3,574
2008	9,265	10,545	19,810	1,900	1,654	3,554
2009-2013	61,300	43,956	105,256	10,415	6,692	17,107
2014-2018	49,035	26,382	75,417	7,110	4,397	11,507
2019-2023	36,195	15,539	51,734	9,045	2,228	11,273
2024-2028	36,685	4,942	41,627	2,135	123	2,258
Total	$ 225,420	$ 147,543	$ 372,963	$ 37,455	$ 22,577	$ 60,032

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

2. Proprietary Long-Term Debt (Continued)

Leases

The City has entered into various lease purchase agreements for the acquisition of computers, copiers, fire trucks, golf equipment, public works equipment, a high capacity trailer, and a hazardous materials vehicle. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the date of inception. Payments on each of the lease purchases will be made from budgeted annual appropriations to be approved by the City Council.

The assets acquired through capital leases for business-type activities are as follows:

Asset:		
Machinery and Equipment	$	709
Less: Accumulated Depreciation		(138)
Total	$	571

As of September 30, 2003, the City (excluding discretely presented component units) had future minimum payments under capital leases with a remaining term in excess of one year for business-type activities as follows:

Leases - Proprietary Activities: Nonmajor Enterprise Fund

	Capital Leases
Proprietary Activities	
Fiscal year ending September 30:	
2004	$ 156
2005	156
2006	156
2007	117
2008	
Future Minimum Lease Payments	585
Less: Interest	(42)
Present Value of Future Minimum Lease Payments	543
Less: Current Portion	(137)
Capital Leases, net of current portion	$ 406

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt

Long-Term Obligations and Amounts Due Within One Year

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	$ 669,473	$ 152,465	$ 154,955	$ 666,983	$ 47,085
Tax-Exempt Commercial Paper	20,800		10,300	10,500	10,500
Tax-Exempt Certificates of Obligation	145,405	69,930	19,055	196,280	10,335
Taxable Certificates of Obligation	9,780		4,615	5,165	585
Revenue Bonds	193,348	44,150	2,580	234,918	4,370
	1,038,806	266,545	191,505	1,113,846	72,875
Unamortized (Discount)/Premium	18,674	17,275	2,113	33,836	2,811
Deferred Amount on Refunding	(556)	(8,358)	(1,001)	(7,913)	(2,863)
Total Bonds Payable	1,056,924	275,462	192,617	1,139,769	72,823
Other Liabilities:					
Accrued Arbitrage Rebate Payable	1,580	136	372	1,344	344
Capital Leases	8,297	4,591	3,092	9,796	3,235
Compensated Absences	114,094	42,654	40,922	115,826	38,297
Total Other Liabilities	123,971	47,381	44,386	126,966	41,876
Total Governmental Activities Long-term Liabilities	$ 1,180,895	$ 322,843	$ 237,003	$ 1,266,735	$ 114,699
Business-type Activities:					
Bond Payable:					
General Obligation Bonds	$ 12,855	$ 805	$ 1,185	$ 12,475	$ 1,105
Revenue Bonds	255,180	61,660	66,575	250,265	7,410
Tax-Exempt Certificates of Obligation	915		780	135	85
	268,950	62,465	68,540	262,875	8,600
Unamortized (Discount)/Premium	917	2,760	132	3,545	
Deferred Amount on Refunding	(528)	(4,890)	(267)	(5,151)	
Total Bonds Payable	269,339	60,335	68,405	261,269	8,600
Other Payables:					
Aviation	649	1,521	575	1,595	1,595
Parking	445	225	313	357	357
Nonmajor Fund	1,053	30	22	1,061	1,061
Total Other Payables	2,147	1,776	910	3,013	3,013
Capital Leases-Nonmajor Fund	677		134	543	137
Compensated Absences	1,723	1,849	1,617	1,955	323
Total Other Liabilities	4,547	3,625	2,661	5,511	3,473
Total Business-type Activities Long-term Liabilities	$ 273,886	$ 63,960	$ 71,066	$ 266,780	$ 12,073

The accreted interest through Fiscal Year 2003 has resulted in an increase of $13,079 in Hotel Tax Revenue Bonds Payable in governmental activites and an increase of $7,652 in General Obligation Bonds Payable. The accreted interest in the amount of $20,731 is reflected on the governmental fund combined statement but is not reflected in this table.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt (Continued)

Compensated Absences

The following is a summary of compensated absences for the year ended September 30, 2003:

Governmental Activities					
Fund Type	Short-Term Available	Short-Term Remaining	Total Short-Term	Long-Term	Total
Governmental Funds	$ 6,377	$ 31,734	$ 38,111	$ 76,599	$ 114,710
Internal Service Funds		186	186	930	1,116
Total Governmental Activities	$ 6,377	$ 31,920	$ 38,297	$ 77,529	$ 115,826

Business-Type Activities			
Fund	Short-Term	Long-Term	Total
Airport	$ 164	$ 838	$ 1,002
Parking	18	90	108
Non-Major Fund	141	704	845
Total Business-Type Activities	$ 323	$ 1,632	$ 1,955

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

A. Primary Government (City) (Continued)

3. Governmental and Proprietary Long-Term Debt (Continued)

Conduit Debt Obligations

The City facilitates the issuance of bonds to enable the San Antonio Industrial Development Authority, Health Facilities Development Corporation and the Education Facilities Corporation (formerly known as Higher Education Authority), component units of the City, to provide financial assistance to various entities for the acquisition, construction or renovation of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired property transfers to the entity served by the bond issuance. As of September 30, 2003, there were thirty-five series of Industrial Revenue Bonds, twenty-one series of Health Facilities Development Bonds, and eleven series of Education Facility Revenue Bonds outstanding. The aggregate principal amount payable for the one series of Industrial Revenue Bonds, the one series of Health Facilities Development Bonds, and the four series Education Facility Revenue Bonds issued after October 1, 1997 was $5,500, $10,700, $55,066, respectively. The aggregate principal amount payable for the remaining series of Industrial Revenue Bonds, Health Facilities Development Bonds, and Education Facility Revenue Bonds issued prior to October 1, 1997 is $0, $69,000, and $0, respectively.

The City also facilitates the issuance of tax-exempt revenue bonds to enable the San Antonio Housing Finance Corporation to provide financing of residential developments for persons of low and moderate income. The bonds are secured by the property financed and are payable solely from and secured by a pledge of rental receipts. As of June 30, 2003, there were twenty-three four of tax-exempt revenue bonds outstanding with an aggregate principal amount payable of $231,155 and an aggregate principal amount issued of $253,950.

To provide for the acquisition and construction of certain airport facilities, the City has issued Special Facilities Airport Revenue Bonds, Series 1995 and Special Airport Facilities Revenue Refunding Bonds, Series 1999. The bonds are payable pursuant to lease agreements, which stipulate that various commercial entities are obligated to pay amounts to a third party trustee in-lieu of lease payments to the City. These payments are sufficient to pay when due the principal, premium, interest on and purchase price of the bonds. The aggregate principal amount payable for the Special Facilities Airport Revenue Bonds, Series 1995 and for the Special Airport Facilities Revenue Refunding Bonds, Series 1999 at September 30, 2003 was $4,400 and $3,826, respectively.

The Starbright Industrial Development Corporation was created to act on behalf of the City in the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare, including but not limited to the acquisition of land. The City of San Antonio, Starbright Industrial Development Corporation Contract Revenue Bonds, Series 2003 were issued to finance the acquisition and conveyance of land to Toyota Motor Manufacturing North America, Inc. for the construction of a training facility. The bonds are secured by pledged revenues and property are payable solely from payments made by the City sufficient to pay principal and interest on the bonds and are subject to annual budget appropriations. The bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2003, the Starbright Industrial Development Corporation Contract Revenue Bonds outstanding totaled $24,685.

Neither the City, the State of Texas, nor any political subdivision is obligated in any manner for repayment of the aforementioned bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

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6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS)

As of January 31, 2003 the Bond Ordinances for New Series Bonds issued on and after August 6, 1992 contain, among others, the following provisions:

Funds in CPS's General Account shall be pledged and appropriated to be used in the following priority: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, including the establishment and maintenance of the reserve therefore, (c) for the payment of any obligations inferior in lien to the New Series Bonds which may be issued, (d) for an amount equal to 6% of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14% of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

The maximum amount in cash to be transferred or credited to the General Fund of the City from the net revenues of the systems during any fiscal year shall not exceed 14% of the gross revenues of the systems less the value of gas and electric services of the systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system. The percentage of gross revenues of the systems to be paid over or credited to the General Fund of the City each fiscal year shall be determined (within the 14% limitation) by the governing body of the City. The net revenues of the systems are pledged to the payment of principal and interest on the New Series Bonds. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the systems.

The City agrees that it will at all times maintain rates and charges for the sales of electric energy, gas, or other services furnished, provided, and supplied by the systems to the City and all other consumers which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

(a) all maintenance and operating expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502, as amended, Texas Government Code;
(b) the interest on and principal of all New Series Bonds, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the New Series Bonds;
(c) to the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the Commercial Paper), the interest on and principal of all Notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and
(d) a legal debt or obligation of the systems as and when the same shall become due.

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6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

Revenue Bonds

A summary of revenue bonds is as follows:

City Public Service Revenue Bonds

Bond Series	Maturities	Weighted-Average Interest Rate on Outstanding Bonds	2003
Tax Exempt New Series Bonds, 1992-2002	2004-2021	5.067%	$2,357,985
Taxable New Series Bonds, 1998-2000	2004-2021	6.687%	141,540
Total New Series Bonds Outstanding		5.172%	2,499,525
Less: Current Maturities of Bonds			100,015
Total Revenue Bonds, net of current maturities			$2,399,510

Principal and interest amounts due for the next five years and thereafter to maturity are:

City Public Service

Principal and Interest Requirements

Year	Principal	Interest	Total
2004	$ 100,015	$ 130,729	$ 230,744
2005	120,335	125,657	245,992
2006	126,635	119,412	246,047
2007	134,515	112,809	247,324
2008	141,265	106,082	247,347
2009-2013	811,805	415,637	1,227,442
2014-2018	696,445	206,314	902,759
2019-2021	368,510	33,029	401,539
Totals	$ 2,499,525	$ 1,249,669	$ 3,749,194

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

B. City Public Service (CPS) (Continued)

In August 2002 $144.2 million par value of 1997 Parity Improvement Bonds were legally defeased with cash. The net accounting loss of $7.1 million reported included $149.7 million paid for the actual defeasance, less the par value of the debt, plus unamortized reacquisition and bond issue costs net of float forward agreement proceeds of $1.6 million.

In September 2002, CPS issued $576.7 million of Revenue and Refunding Bonds to refund $445.1 million in certain outstanding New Series Bonds and to reimburse prior construction expenditures of $150.0 million. The bonds were sold at a combined net premium of $56.8 million.

The refunding bonds were issued to current refund $48.7 million in 1992 New Series Bonds and advance refund $396.3 in other New Series Bonds. The refunding transaction resulted in cash flow savings of $24.1 million, which equated to a present value savings of $18.1 million, or 4.06 percent of the par amount of refunded bonds. This transaction resulted in a loss for accounting purposes of $34.4 million, which has been deferred and will be amortized over the shorter of life of the refunded or refunding bonds.

Long-Term Debt Activity

Issue	Original Amount	Final Principal Payment	Interest Rates (%)	Balance Outstanding February 1, 2002	Additions During Year	Deletions During Year	Balance Outstanding January 31, 2003
Revenue and Refunding Bonds							
1992 Tax-exempt	$ 700,805	2017	6.048	$ 121,615	$ 0	$ 52,755	$ 68,860
1994-A Tax-exempt	684,700	2014	5.008	565,570		60,420	505,150
1994-C Tax-exempt	56,000	2006	5.008	42,710			42,710
1995 Tax-exempt	125,000	2018	5.500	109,300		19,100	90,200
1997 Tax-exempt	350,000	2020	5.738	332,570		162,855	169,715
1997 Tax-exempt	311,170	2014	5.509	244,305		129,215	115,090
1998A Tax-exempt	785,515	2021	4.918	743,150		92,750	650,400
1998B Taxable	99,615	2020	6.343	95,390		1,740	93,650
2000A Tax-exempt	170,770	2017	5.374	170,770		146,895	23,875
2000B Taxable	50,425	2021	7.403	49,200		1,310	47,890
2001 Tax-exempt	115,280	2011	3.843	115,280			115,280
2002 Tax-exempt	436,090	2017	4.055		436,090		436,090
2002 Tax-exempt	140,615	2020	4.751		140,615		140,615
				2,589,860	576,705	667,040	2,499,525
Less Bond current maturities				77,825	22,190		100,015
Less Bond discount/(premium)				(10,542)	(56,803)	(4,855)	(62,490)
Less Bond acquisition costs				145,729	54,877	40,862	159,744
Revenue Bonds, Net				2,376,848	556,441	631,033	2,302,256
Tax-Exempt Commercial Paper (TECP)				350,000			350,000
Long-term Debt, Net				$ 2,726,848	$ 556,441	$ 631,033	$ 2,652,256

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS)

On April 30, 1992, City Ordinance No. 75686 was adopted. This ordinance authorized the issuance of $635,925 Water System Revenue Refunding Bonds, Series 1992, dated April 15, 1992. These bonds were issued to refund in advance of maturity $253,065 Water Revenue Bonds authorized and outstanding under terms of City Ordinance No. 52091, $330,125 of Sewer Revenue Bonds authorized and outstanding under terms of City Ordinance No. 51975, $14,500 of other bonded debt of annexed water districts, and $49,200 of Sewer System Commercial Paper. The purpose of this advance refunding was to release and discharge the covenants contained in City Ordinance No. 52091 and No. 51975 in order to permit the City to consolidate the operations of the water related utilities.

The System: City Ordinance No. 75686 defines SAWS as all properties, facilities, plants owned, operated and maintained by the City and/or the Board of Trustees, for the supply, treatment, transmission and distribution of treated potable water, chilled water and steam, for the collection and treatment of wastewater and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, and any other projects and programs of SAWS; provided however, that the City retains the right to incorporate a stormwater system as provided by the Texas Local Government Code. See "Stormwater" below.

Funds Flow: City Ordinance No. 75686 requires that Gross Revenues of SAWS be applied in sequence to: (1) current maintenance and operating expenses including a two month reserve based upon the budgeted amount of maintenance and operating expenses for the current fiscal year; (2) Debt Service Fund requirements of Senior Lien Obligations; (3) Reserve Fund requirements of Senior Lien Obligations; (4) Interest and Sinking Fund and Reserve Fund requirements of Junior Lien Obligations; (5) Interest and Sinking Fund and Reserve Fund requirements of Subordinate Lien Obligations; (6) payment of amounts required on Inferior Lien Obligations, and (7) transfers to the City's General Fund and to the Renewal and Replacement Fund.

Reuse Contract: SAWS has a contract with City Public Service, the City owned electricity and gas utility, for the provision of reuse water. The revenues derived from the contract have been restricted in use to only reuse activities, are excluded from the calculation of Gross Revenues, and are not included in any transfers to the City's General Fund. Revenues derived from this contract were $2,000 during the twelve months ended December 31, 2002.

SAWS is developing a recycled water system, which will provide non-potable water to various customers now using Edwards Aquifer water. During the twelve months ended December 31, 2002, the System generated an additional $452 in revenue from sales of recycled water. Revenue from recycled water sales is recorded as revenue of the System and does have the restrictions of the reuse contract.

Stormwater: In addition to the water related utilities which the Board has under its control, the City Council approved Ordinance No. 77949 on May 13, 1993, which established initial responsibilities over the Stormwater Program with the System and adopts a schedule of rates to be charged for stormwater services and programs. The Stormwater Program is deemed to not be a part of SAWS as the term is defined in City Ordinance No. 75686. Accordingly, operations of the Stormwater Program are not considered when determining compliance with debt covenants contained in City Ordinance 75686 or in calculating payments to be made to the City. In fiscal year 1997, the City Council placed the administrative responsibility with its own staff and entered into an interlocal agreement with SAWS for the provision of services related to certain water quality monitoring functions.

No Free Service: City Ordinance No. 75686 also provides for no free services except for municipal fire-fighting purposes.

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Revenue Bonds

Senior Lien Water System Revenue Bonds, comprised of Series 1996, Series 1997, Series 1999, Series 2001, Series 2002, and Series 2002-A outstanding in the amounts of $739,980 are collateralized by a senior lien and pledge of Gross Revenues of SAWS after deducting and paying the current expenses of operation and maintenance of the System and maintaining an operating reserve for operating and maintenance expenses. At December 31, 2002, these bonds are due in varying amounts, from a low of $865 in 2003 to a high of $58,405 in 2028.

Junior Lien Water System Revenue Bonds, comprised of Series 1999, Series 1999-A, Series 2001, and Series 2001-A, Series 2002, Series 2002-A outstanding in the amount of $157,480 at December 31, 2002, and are collateralized by a junior lien and pledge of the gross revenues of the System after deducting and paying the current expenses of operation and maintenance of the System, maintaining an operating reserve for operating and maintenance expenses, and debt service on senior lien debt. At December 31, 2002, the Junior Lien bonds were due in varying amounts, from a low of $2,210 in 2022 to a high of $12,880 in 2019.

Revenue bonds currently outstanding are as follows:

San Antonio Water System

Purpose	Interest Rates	Amount
Build, improve, extend, enlarge, and repair the System	0.00-6.5%	$ 897,460

The following summarizes transactions of the revenue bonds for the year ended December 31, 2002:

	Beginning Balance Jan. 1, 2002	Additions	Reductions	Ending Balance Dec. 31, 2002	Due Within One Year
Bonds Payable	$ 728,455	$ 466,070	$ 297,065	$ 897,460	$ 5,515
Deferred Amounts					
For issuance discounts/ premiums/losses		8,318	39,338	(31,020)	
Total Bonds Payable, Net	$ 728,455	$ 474,388	$ 336,403	$ 866,440	$ 5,515

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

Annual debt service requirements are shown as follows:

San Antonio Water System
Annual Debt Service Requirements
Revenue Bonds

Year Ended December 31,	Junior Lien Revenue and Refunding Bonds		Senior Lien Revenue and Refunding Bonds	
	Principal	Interest	Principal	Interest
2003	$ 4,650	$ 5,614	$ 865	$ 38,815
2004	4,790	5,474	955	38,773
2005	4,930	5,323	9,480	38,538
2006	5,085	5,164	15,145	37,908
2007	7,835	4,961	13,310	37,113
2008-2012	43,245	20,748	91,265	171,985
2013-2017	52,160	12,141	112,810	145,690
2018-2022	34,785	2,333	160,215	110,148
2023-2027			244,605	55,699
2028-2032			91,330	6,502
Total	$ 157,480	$ 61,758	$ 739,980	$ 681,171

Capitalized Interest Costs

Interest costs incurred on revenue bonds and short-term commercial paper debt totaled $46,915 during the twelve months ended December 31, 2002, of which $8,064 was capitalized as part of the cost of SAWS' utility plant additions.

Leases

SAWS entered into various lease agreements for financing the acquisition of computer equipment, software and heavy equipment. These lease agreements meet the requirements of capital lease for accounting purposes and therefore, are recorded at the present value of the future minimum lease payments as of the inception date. The terms of the leases are for three to five years with payments of $29,913 monthly and $355,785 annually. The annual percentage rate of the leases ranges from 3.18% to 5.8%. SAWS recorded capital leases related to computer equipment in the amount of $1,216,948 and $570,487 is related to vehicles. At the end of the respective lease terms, the ownership of the equipment transfers to SAWS. Please note the amounts in this paragraph are not stated in thousands.

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(amounts are expressed in thousands)

6. LONG-TERM DEBT (Continued)

C. San Antonio Water System (SAWS) (Continued)

The future minimum lease obligations as of December 31, 2002 are as follows:

San Antonio Water System
Minimum Lease Obligation

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2003	$ 214	$ 76	$ 290
2004	123	8	131
2005	75	2	77
Total	$ 412	$ 86	$ 498

Note Payable

During fiscal year 2000, a contract was entered into between SAWS and CPS whereby SAWS acquired water rights from certain CPS properties. A note was signed for 116 payments of $40 at an interest rate of 7.5%. Total payments on this note are $4,640 including interest. The liability as of December 31, 2002 is included in the statement of net assets for both the current portion of $311 and long-term amount of $2,078. The annual principal and interest requirements are as follows:

San Antonio Water System
Principal and Interest Requirements

Year Ending December 31,	Principal	Interest	Total Annual Requirements
2003	$ 311	$ 169	$ 480
2004	336	144	480
2005	362	118	480
2006	390	90	480
2007	420	60	480
2008	452	28	480
2009	118	2	120
Total	$ 2,389	$ 611	$ 3,000

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(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS

A. Primary Government (City)

Commercial Paper

On November 9, 2000, the City Council approved issuance of $35,000 Sales Tax Commercial Paper Notes, Series A. The proceeds from the sale of the Notes are to provide for the planning, acquisition, establishment, development, construction, and renovation of the "Parks Development and Expansion Venue Project" authorized at an election held on May 6, 2000 which includes the acquisition of open space over the Edwards Aquifer Recharge Zone and linear parks along Leon Creek and Salado Creek, and the construction of improvements or additions to such Open Space Parks and Linear Parks. The Notes are supported by an irrevocable direct-pay Letter of Credit, dated as of December 5, 2000 to be issued by Landesbank Hessen-Thuringen Girozentrale, acting through its New York Bank (Helaba or the Bank). The Letter of Credit in an amount equal to $37,589 enables the City to pay at maturity the principal amount of the Notes plus up to 270 days interest.

The City sold $32,700 in Sales Tax Revenue Commercial Paper Notes in fiscal year 2001. As of September 30, 2003, $10,500 of Commercial Paper notes are outstanding with interest rates on the notes between .750% and .850% and with various maturities ranging from 48 to 112 days. The aforementioned Commercial Paper Notes have been classified as long-term in accordance with the refinancing terms of the revolving credit agreement identified above.

The City has made the determination that it will not renew the existing Letter of Credit and Reimbursement Agreement which is currently due to expire on November 30, 2003 pertaining to the City's existing Sales Tax Commercial Paper Program (the "Program"). The City has made the determination that it will not take the actions at this point in time to secure a substitute credit provider for this Program, it will pay from lawfully available funds on hand all currently outstanding notes at maturity (currently outstanding in the principal amount of $10,500 scheduled to mature on November 3, 2003, November 5, 2003 and November 7, 2003), and it will not issue any additional Commercial Paper Notes.

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7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

A. Primary Government (City) (Continued)

Revolving Line of Credit

The City uses a revolving line of credit for the Housing Asset Recovery Program. The line of credit is used to preserve housing stock and to revitalize neighborhoods by renovating and rehabilitating property owned by the City that is acquired through various programs (i.e. flood buyouts, facilities expansion, etc.). The City intends to finance their repayment with the proceeds received from the sale of the renovated houses. The amount of the line of credit is $1,250, of which $331 was outstanding as of September 30, 2003.

Revolving Line of Credit			
Beginning Balance	Increases	Decreases	Ending Balance
$ 331	$ 0	$ 0	$ 331

B. City Public Service (CPS)

Commercial Paper

In 1988, the City Council adopted an ordinance authorizing the issuance of up to $300,000 in Tax-Exempt Commercial Paper (TECP). This ordinance, as amended, provides for funding to assist in the financing of eligible projects, in an aggregate amount not to exceed $450,000. Eligible projects include fuel acquisition, capital improvements to the utility systems (the Systems), and refinancing or refunding any outstanding obligations which are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks, which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $350,000 for the purpose of paying principal due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2004, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds and any to be issued in the future.

CPS sold $97,200 of TECP in fiscal year 2002; $13,600 in proceeds remaining from 2002 has been used to fund construction expenditures in 2003.

As of January 31, 2003 a summary of TECP is as follows:

TECP Outstanding	$ 350,000
Weighted-average interest rate of outstanding TECP, approximate	1.1%
Average life of outstanding TECP approximate number of days	80

(amounts are expressed in thousands)

7. COMMERCIAL PAPER PROGRAMS AND OTHER BORROWINGS (Continued)

C. San Antonio Water System (SAWS)

Commercial Paper

The System maintains a Commercial Paper Program that is used to provide funds for the interim financing of a portion of capital improvements to the System.

On January 11, 2001, the City Council approved the expansion of the TECP Program (Tax Exempt Commercial Paper) from $175,000 to $350,000. The increase in the program provides interim financing for the increased level of future expenditures on water resource projects. Notes payable under the program cannot exceed maturities of 270 days and scheduled maturities of the short-term borrowing under the Commercial Paper Program may not extend past May 14, 2032.

The City has covenanted in the ordinance authorizing the Commercial Paper Program (the "Note Ordinance") to maintain at all times credit facilities with banks or other financial institutions which would provide available borrowing sufficient to pay the principal of the Commercial Paper Program. The credit facility is maintained under the terms of a revolving credit agreement.

To further support the issuance of the Commercial Paper Program, on June 2, 2001, the City entered into the agreements with the following:

- Dealer Agreements with Goldman, Sachs & Co., J.P. Morgan Securities Inc., and Ramirez & Co., Inc.
- Revolving Credit Agreement with Westdeutsche Landesbank Girozentrale and Landesbank Baden Wurttemberg.
- Issuing and Paying Agency Agreement with Bank One, National Association Chicago, Illinois.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving credit agreement.

Commercial paper notes of $255,000 are outstanding as of December 31, 2002. The proceeds of the notes have been used solely for financing of capital improvements of the System. The tax exempt commercial paper notes have been classified as long-term in accordance with the refinancing terms of the Credit Agreement and since management intends to continue the remarketing of the tax exempt commercial paper notes to maintain a portion of its debt in variable rates. Interest rates on the notes outstanding at year-end range from 1.00% to 1.65% and from 26 to 126 days in maturity. (The outstanding notes at December 31, 2002 had an average rate of 1.23% and averaged 76 days to maturity.)

The following summarizes transactions of the commercial paper program for the year ended December 31, 2002.

	Beginning Balance Jan. 1, 2002	Additions	Reductions	Ending Balance Dec. 31, 2002	Due Within One Year
Commercial Paper Notes	$185,000	$70,000	$ 0	$255,000	$ 0

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(amounts are expressed in thousands)

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8. PENSION AND RETIREMENT PLANS

A. General Plan Information

The City of San Antonio, SAWS and CPS participate in several contributory retirement plans. These are funded plans covering substantial full-time employees. Payroll and contribution information as of the year-end for each entity is presented below:

Contributory Pension and Retirement Plans

Entity	Title	Type of Plan	Covered Payroll	Employee Contribution	Employer Contribution	Total Contributions
City	Fire and Police Pension Fund	Single Employer Defined Benefit Plan	$ 181,806	$ 22,504	$ 45,008	$ 67,512
	Texas Municipal Retirement System (TMRS)	Non Traditional Hybrid Defined Benefit Agent Plan	197,742	11,864	22,684	34,548
Component Units:						
SAWS	[1]Texas Municipal Retirement System (TMRS)	Non Traditional Defined Contribution Agent Plan	Not Available	1,645	1,772	3,417
	[2]PMLIC Contract	Agent Multiple Employer Defined Benefit Plan	51,303		2,857	2,857
CPS	[3]CPS All Employees Plan	Single Employer Defined Benefit Plan	180,292	8,733	5,213	13,946

[1] Plan year ended December 31, 2002
[2] Plan year ended December 31, 2002
[3] Fiscal year ended January 31, 2003

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City)

Fire and Police Pension Plan

The Pension Fund is a single-employer defined benefit retirement plan established in accordance with the laws of the State of Texas. The City provides retirement benefits for all eligible full-time Fire and Police employees through the Pension Fund. Employees who terminate having five to twenty years of service may apply to receive a refund of their original contribution. Employees retiring who have served and contributed for twenty years or more shall, upon application to the Board of Trustees of the Pension Fund, receive a retirement pension based on the average of the employee's total salary, excluding overtime pay, for the highest three years of pay of the last five years of service. The retirement annuity for employees retiring after September 30, 2001 is computed at the rate of 2.25% of this average for each of the first twenty years of service, plus 4.5% of the member's average total salary for each of the next seven years, plus three percent of the member's average total salary for each of the next three years of service, plus 0.5% of the member's average total salary for each of the next four years of service, with fractional years of service prorated based on full months served as a contributing member. In making the computation for a year, the year is considered to begin on the first day a contribution is made. A retirement annuity under this subsection may not exceed, as of the date of retirement, 87.5% of the member's average total salary.

An employee with twenty years and one month of actual service credit may at the time of retirement elect a Backward Deferred Retirement Option Plan (Back DROP). The Back DROP election results in a lump sum payment equal to the number of full months of service elected by an employee that does not exceed the lesser of the number of months of service credit the employee had in excess of twenty years or thirty-six months and a reduced annuity payment.

There is also a provision for a 13th and a 14th pension check. The Board may authorize the disbursement of a 13th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 100 basis points. The Board may authorize a 14th monthly pension check if the yield on the Pension Fund's investments exceeds the actuarial projections for the preceding five year period by at least 300 basis points. The 13th and 14th pension checks are paid to each retiree and beneficiary receiving a pension at the time of the disbursement and are in an amount equal to the pension check paid in the last month of the preceding fiscal year of the Pension Fund (retirees/beneficiaries with less than one year of benefits will receive a prorated check, and no check will be paid to members who retired after the end of the fiscal year).

If service is terminated by reason of death or disability, the employee's beneficiary or the employee shall be entitled to one-half of the average of the employee's total salary, excluding overtime pay, based on the same number of years of the member's pay as used to compute normal retirement benefits. If a member is killed in the line of duty, the member's surviving spouse and dependent children are entitled to a pension based upon actual base salary at time of death.

The Pension Fund issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the Fire and Police Pension Fund of San Antonio, 311 Roosevelt, San Antonio, Texas 78210-2700 or by calling (210) 534-3262.

Contribution requirements of plan members and the City are established and may be amended by State statute. In the current year, the City contributed 24.64% of covered payroll and employees contributed 12.32% of covered payroll. The employer's required contribution of $45,008 and the employee's required contribution of $22,504 were made to the Pension Fund. (See summary of contribution information at Part A of this footnote).

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Fire and Police Pension Plan (Continued)

Effective October 1, 2001, in addition to the changes for credited service and the 14th check as mentioned above, other new provisions include allowing the surviving spouse of an active member to elect to receive benefits in the form of a lump-sum payment and reduced annuity, similar to a Back DROP election made by a retiring member, increasing the maximum benefit for surviving spouses and dependent children equal to a 27 year pension, and increasing cost-of-living increases for all retirees who retired between August 30, 1971 and October 1, 1991.

For the year ended September 30, 2003, the City's annual pension cost of $45,008 for the Pension Fund was equal to the City's required and actual contributions. The annual required contribution was determined as part of the October 2002 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, and (b) projected salary increase of 5.5% per year. Both (a) and (b) included an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The Pension Fund's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at October 1, 2002 was 32.40 years.

Texas Municipal Retirement System

The City provides benefits for all eligible employees (excluding firefighters and police officers) through a nontraditional, joint contributory, hybrid defined benefit plan in the TMRS. The TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1948 to provide retirement and disability benefits to city employees. It is the opinion of the TMRS management that the plans in TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

TMRS issues a publicly available financial report that includes financial information related to participating municipalities. The report may be obtained by writing to the TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or calling (512) 476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage of the employee's accumulated contributions. In addition, the City may grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the City-financed monetary credits with interest were used to purchase an annuity.

Members are eligible to retire upon attaining the normal retirement age of 60 and above with 5 or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after 5 years, but must leave accumulated contributions in the plan. If a member withdraws the contributions with interest, the member would not be entitled to the City-financed monetary credits, even if vested.

8. PENSION AND RETIREMENT PLANS (Continued)

B. Primary Government (City) (Continued)

Texas Municipal Retirement System (Continued)

The plan provisions and contribution requirements are adopted by the governing body of the City within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's actuary (See summary of TMRS Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the City's employees is 6% and the matching percent is currently 11.42%, both as adopted by the governing body of the City. (See summary of contribution information in Part A of this footnote). Under the state law governing TMRS, the Employer's Contribution rates are annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time the employee's retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's twenty-five year amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is being amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is being amortized over a constant twenty-five year period as a level percent of payroll. Contributions are made monthly by both the employees and the City. All current year required contributions of the employees and the City were made to TMRS. Due to the fact that the City requires the contribution rates in advance for budget purposes, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

C. San Antonio Water System (SAWS)

SAWS' retirement program includes benefits provided by the Texas Municipal Retirement System, a contract with Principal Mutual Life Insurance Company, and Social Security.

Covered employees are eligible to retire upon attaining the normal retirement age of 65. An employee may elect early retirement, with reduced benefits, upon attainment of:

1. 20 Years of credited service regardless of age, or
2. 25 Years of credited service and at least age 50, or
3. 10 Years of credited service and at least age 60.

The normal retirement benefit is based upon two factors, average compensation and years of credited service. Average Compensation is defined as the monthly average of total compensation received for the three consecutive years ending December 31, out of the latest ten compensation years prior to normal retirement date which gives the highest average.

The normal retirement benefit under the Principal Mutual contract is equal to:

1. 1.2% of the Average Compensation, times years of credited service not in excess of 25 years, plus
2. 0.75% of the Average Compensation, times years of credited service in excess of 25 years but not in excess of 35 years, plus
3. 0.375% of the Average Compensation, times years of credited service in excess of 35 years.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Upon retirement, an employee must select from one of seven alternative payment plans. Each payment plan provides for monthly payments as long as the retired employee lives. The options available address how plan benefits are to be distributed to the designated beneficiary of the retired employee. The program also provides death and disability benefits. The following information related to the Texas Municipal Retirement System and Principal Mutual Life Insurance has been prepared as of January 1, 2001.

Texas Municipal Retirement System

SAWS provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS was established in 1948 as a retirement and disability pension system for municipal employees in the State of Texas, and is administered in accordance with the Texas Municipal Retirement System Act. It is the opinion of the TMRS management that the plans in the TMRS are substantially defined benefit plans, but they have elected to provide additional voluntary disclosure to help foster a better understanding of some of the nontraditional characteristics of the plan.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the SAWS-financed monetary credits, with interest. At the date the plan began, SAWS granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, and 200%) of the employee's accumulated contributions. In addition, SAWS may grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and SAWS matching percent had always been in existence and if the employee's salary had always been the average salary for the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions and contribution requirements are adopted by SAWS within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contribution requirements are actuarially determined by TMRS's Actuary (See Summary of TMRS's Actuarial Assumptions and Methods in Part F of this footnote). The contribution rate for the employees is 3% of salary, and SAWS matching rate approximates 100% of the employee rate, both as adopted by the SAWS. Under the state law governing TMRS, SAWS' contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to SAWS' matching percent, which are the obligation of SAWS as of an employee's retirement date not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of SAWS to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Texas Municipal Retirement System (Continued)

When SAWS periodically adopts updated service credits and increases the annuities in effect, the increased unfunded actuarial liability is to be amortized over a new twenty-five year period. Currently, the unfunded actuarial liability is to be amortized over the twenty-five year period, which began January 1, 1998. The unit credit actuarial cost method is used for determining SAWS contribution rate.

Contributions are made monthly by both the employees and SAWS. Since SAWS needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. Significant assumptions used in the actuarial valuation of annual required contributions include a rate of return on the investment of present and future assets of 8.0% per year. Additionally, there is no need to project salary increases since the benefit credits earned for service to date are not dependent on future salaries. Likewise, inflation and cost-of-living adjustments are not accounted for in the actuarial study. Assets are valued at amortized cost.

Principal Mutual Life Insurance Company

The contract with Principal Mutual Life Insurance Company (PMLIC) serves as a supplement to the TMRS and Social Security benefits. SAWS' covered payroll at January 1, 2002 under this contract was $51,303.

SAWS provides supplemental pension benefits for all persons customarily employed at least 20 hours per week and five months per year through this defined benefit plan. Employees are eligible to participate in the plan on January 1 of the calendar year following date of hire. An employee covered by the plan may vest a portion of the plan benefits if termination occurs after sufficient years of service have been credited. The plan allows an employee to accrue vesting benefits as follows:

Years of Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

An employee is automatically 100% vested upon attainment of age 65 or upon becoming totally and permanently disabled.

Benefits for retired employees are fully guaranteed at retirement. The pension plans unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities or pay administrative expenses charged by Principal Life Insurance Co. The plan provisions and contribution requirements are governed by SAWS which may amend plan provisions and is responsible for the management of plan assets.

Significant assumptions used by PMLIC's actuary to compute the actuarially determined contribution requirements include: (a) a rate of return on the investment of present and future assets of 8.5% per year, (b) salary scale from Table S-5 of the Actuary's Pension Handbook, plus 3.4%, and (c) plan expenses according to the expense scales of the Service Agreements.

8. PENSION AND RETIREMENT PLANS (Continued)

C. San Antonio Water System (SAWS) (Continued)

Principal Mutual Life Insurance Company (Continued)

The PMLIC contract funding policy provides for actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. The actuarial cost method is known as the Entry Age Normal-Frozen Initial Liability Method. This method spreads the total cost of the projected pension benefits for each employee evenly from the date the employee is first eligible for the plan to the employee's assumed retirement date. As plan benefits are related to compensation, the cost is spread as a level percentage of compensation. The total of annual amounts for all employees combined is called the Normal Cost. The employee's Entry Age is determined as if the plan had always been in existence. Thus, as of the plan effective date, there are some accumulated Normal Costs for past years that have not been paid. The value of these costs is called the Frozen Initial Liability.

In subsequent years the Frozen Initial Liability is reduced by employer deposits to the plan in excess of employer Normal Cost and interest requirements. This reduced amount is known as the Unfunded Frozen Initial Liability. Contribution requirements are established and may be amended by the System. Active members are not required to contribute to the plan. Any obligation with respect to the pension plan shall be paid by the System. The actuarial valuation, which was performed for the plan year, ended December 31, 2001 reflects an unfunded frozen initial liability of $8,884.

The PMLIC issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Principal Life Insurance Company, Pension Diversified Retirement Services, Des Moines, Iowa 50392-0001 or by calling (515) 247-5111.

D. City Public Service (CPS)

All Employee Plan

The CPS Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service and to those employees who are ages 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55 with 25 years or more of benefit service, or age 62 with less than 25 years of service.

The Plan and contribution requirements are sponsored by and may be amended by CPS, acting by and through the General Manager and Chief Executive Officer of CPS. The Plan assets are held in a separate trust that is periodically audited and which financial statements include historical trend information. Additional information may be obtained by writing the Employee Benefits Division of CPS, P.O. Box 1771, San Antonio, Texas 78296 or by calling (210) 978-2484.

Funding levels are established through annual actuarial evaluations and recommendations of an Administrative/Investment Committee, using both employee and employer contributions. Participating employees contribute 5% of their total compensation and are fully vested after completing 7 years of credited service or at age 40. The balance of contributions made amounted to 2.9% and is the responsibility of CPS, considering actuarial information, budgetary compliance, and the need to amend the Plan with legal requirements. (See Summary of Contribution Information at Part A of this footnote).

(amounts are expressed in thousands)

8. PENSION AND RETIREMENT PLANS (Continued)

D. City Public Service (CPS) (Continued)

All Employee Plan (Continued)

As calculated under GASB Statement No. 27, CPS' annual pension cost and net pension obligation for the fiscal year ended January 31, 2003 were $4,921 and $0 respectively. The annual required contribution was determined as part of the January 1, 2002 actuarial valuation using (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar open for amortization. The remaining amortization period is 18.9 years and is calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 2002 actuarial valuation include (a) a rate of return on the investment of present and future assets of 8.5 % per year compounded annually, (b) projected salary increases averaging 5.0 %, and (c) post-retirement cost-of-living increases of 2.0 %. The projected salary increases include an inflation rate of 4.0 %.

E. Three Year Trend Information

Trend information compares the annual required contribution to annual pension cost and the resultant net pension obligation as required by GASB Statement No. 27.

Three Year Trend Information

Pension Plan	Fiscal Year	Annual Required Contribution (ARC)	Interest on Net Pension Obligation (NPO)	Adjustment To ARC	Annual Pension Cost (APC)	Contributions In relation to ARC	Increase (Decrease) in NPO	Net Pension Obligation at Beginning of Year	Net Pension Obligation at End Of Year	Percentage of APC Contributed
Fire and Police Pension-City of San Antonio	2001	$ 42,065	$ 0	$ 0	$ 42,065	$ (42,065)	$ 0	$ 0	$ 0	100%
	2002	43,615			43,615	(43,615)				100%
	2003	45,008			45,008	(45,008)				100%
TMRS-City of San Antonio	2001	21,610			21,610	(21,610)				100%
	2002	23,147			23,147	(23,147)				100%
	2003	22,684			22,684	(22,684)				100%
CPS All Empoyee Plan [1]	2001	5,397	8	(13)	5,392	(5,392)		99	99	100%
	2002	660	8	(14)	654	(753)	(99)	99		115%
	2003	4,921			4,921	(4,921)				100%
TMRS-SAWS [2]	2000	1,620			1,620	(1,620)				100%
	2001	1,044			1,044	(1,044)				100%
	2002	1,772			1,772	(1,772)				100%
PMLIC-SAWS [3]	2000	2,770			2,770	(2,770)				100%
	2001	2,969			2,969	(2,969)				100%
	2002	2,857			2,857	(2,857)				100%

1 Fiscal year ended January 31, 2003
2 Covers seven months ended May 31, 2001 and seven months ended December 31, 2001 and year ended 2002, respectively
3 Plan year ended December 31, 2002

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8. PENSION AND RETIREMENT PLANS (Continued)

F. Significant TMRS Actuarial Assumptions and Methods

Significant assumptions used in the actuarial valuation by the Texas Municipal Retirement System's (TMRS) actuary are provided in the table below for both the City and SAWS:

TMRS Actuarial Assumptions and Methods	
Investment Return	8%
Inflation Rate	None
Projected Salary Increases	None
Post Retirement Benefit Increases	None
Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost

Location of Schedules of Funding Progress

The Schedule of Funding Progress is located in the "Required Supplementary Information" section of this report. The schedules are designed to provide information about each entity's progress in accumulating sufficient assets to pay benefits due.

9. POSTEMPLOYMENT RETIREMENT BENEFITS

A. Primary Government (City)

In addition to the pension benefits discussed in Note 8, the City provides all their retired employees with certain health benefits under two post-employment benefit programs. The first program is a health insurance plan, which provides benefits for all non-uniformed City retirees and for all, pre-October 1, 1989, uniformed (fire and police) retirees. Currently, there are 6,530 active civilian employees who may become eligible in the future. Employees become eligible for the program when they reach eligibility for the TMRS Pension Plan, discussed in Note 8. At September 30, 2003, there were 1,495 retirees participating in the program which covers eligible expenses at eighty percent after a deductible of $250 (single)/$500 (family) for non-Medicare and $125/$250 for Medicare retirees. The cost of the program is reviewed annually, and actuarially determined costs of medical claims are funded jointly by the City and retirees on a pay-as-you-go basis shared on a targeted 67% City - 33% retiree cost allocation. Please note that the number of employees, retirees, and deductible amounts in this paragraph are not expressed in thousands. For retirees, total expenses for the year were $6,302. For the year ended September 30, 2003, total contributions were as follows:

City	$ 3,329
Employees	1,942
TOTAL	$ 5,271

The second post-employment benefit program of the City provides retirement health care benefits for eligible Fire and Police retirees under the Fire and Police Retiree Healthcare Fund ("Fund"). The Fund was originally established as a fund of the City pursuant to the respective Fire and Police collective bargaining agreements to provide postemployment health benefits for San Antonio Fire Fighters and Police Officers who retired on or after October 1, 1989. Effective October 1, 1997, the Fund was created as a separate and distinct statutory trust. The Fund is governed by a nine member Board of Trustees comprised of the Mayor, two City Councilmembers, two active police officers, two active fire fighters, a retiree representative of the Fire Department, and a retiree representative of the Police Department. The Board of Trustees is responsible for the investment of the assets of the Fund. Contribution and benefit levels are determined by the respective collective bargaining agreements with the Fire and Police Associations.

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

The benefits of this plan are financed on a prefunded basis. The City currently makes contributions on behalf of 3,429 active Fire Fighters and Police Officers who may be eligible for benefits under this plan in the future. The benefits of the plan are not available until the employee has completed twenty years of service and the plan is currently providing benefits to 962 eligible retirees. The Program reimburses 80 percent of the amount of eligible claims for standard medical costs and 100 percent for hospitalization costs incurred by the retiree and their eligible dependents. Based on the Police contract, the City contributed 9.4% of base pay plus longevity of all eligible police officers and each police officer contributed $20 per month for fiscal years 2002 and 2003. Based on the Fire contract, the City contributed 9.4% of base pay plus longevity and fire fighters contributed $20 per month, during the period from January 2001 to May 2002. Beginning in June 2002, the City contributed 8.92% of base pay plus longevity and active fire fighters contributed $40 per month. For fiscal year 2003, the City contributed 8.71% of base pay plus longevity and active fire fighters contributed $50 per month. Please note the number of firefighters and police officers, retirees, and monthly contribution rates in this section are not expressed in thousands. For the year ended September 30, 2003, total expenses for retired employees was $8,513 and total contributions were as follows:

City	$ 15,466
Employees and Retiree Dependent Premiums	1,678
TOTAL	$ 17,144

Historically, actuarial valuations have been performed periodically to determine the actuarial position of the Fund and whether the existing financing of the Fund can be reasonably expected to be adequate over a long period of time. The Board of Trustees had an actuarial valuation performed as of July 1, 2000 and the results of that study indicated that based on employer contributions of 9.4% of covered payroll (base pay plus longevity) plus the employee monthly contributions of $20, the unfunded liability of the Fund could be amortized over a 25 year period. Subsequently, the Board of Trustees engaged another actuarial firm to perform an actuarial valuation of the Fund as of October 1, 2001. The actuarial report was issued on May 20, 2002 and the results of this report indicated that the employer and employee contributions mentioned previously were not sufficient to amortize the unfunded liability. Additionally, the study recommended a contribution rate of 13.94% of covered payroll plus the employee monthly contributions of $20 to amortize the unfunded liability of the Fund over a 40 year period. Based on this rate, the total contribution to the Fund would be have been required to increase from an estimated $17,200 to $25,100, an increase of $7,900 beginning October 1, 2002.

Since then, the Board of Trustees has had another actuarial valuation of the Fund initiated with a valuation date of October 1, 2002. The results of the actuarial valuation as of October 1, 2002 were that, in the opinion of the actuary, the fund will have a long-term inadequate financing arrangement if present health benefits are left unchanged and if the monthly contribution rates remain at the level of $20 per month per active participant. The Fund's actuary has recommended that the City's contribution be increased to 19.52% of covered payroll. The increase is based on actuarial assumptions for current health benefit claims costs and future annual increases for health benefit claims costs.

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9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

A. Primary Government (City) (Continued)

While the results of both the 2002 and 2003 studies reflect significant changes in contribution levels, the actuarial reports also state that the Fund does not have a short term financing problem. As of September 30, 2003, net assets available for postemployment benefits were $107,111 while benefits payments for the fiscal year ended September 30, 2003 were $8,513. As noted above, contribution and benefit levels are established pursuant to the collective bargaining agreements. The current agreement with the Fire Association will expire September 30, 2005 and has an evergreen clause through September 30, 2015. This agreement was negotiated prior to the issuance of the actuarial valuation as of October 1, 2001, however, the agreement does contain a limited reopener related to contributions to the Fund. The City anticipates exercising the limited re-opener under its current agreement with the Fire Association in the Spring of 2004 for the purpose of discussing contributions to the Fund. As disclosed in Note 17, Subsequent Events, the City approved an agreement in November of 2003 with the Police Association which will expire on September 30, 2006 and has an evergreen clause through September 30, 2016.

This agreement with the Police Association increases both contributions by the City and active police officers over the term of the agreement. Effective November 1, 2003, the City will contribute an additional $20 per eligible police officer per month during the term of the Agreement. Contributions by active police officers will increase from $20 per month to the following based on the effective date: November 1, 2003 - $40; April 1, 2004 - $50; October 1, 2004 - $60; and April 1, 2005 - $ 70. The agreement makes certain changes in benefits such as expanding the list of preventive services and for in-network and out-of-network pharmacy benefits with increased co-payments for drugs purchased at out-of-network pharmacies which also became effective simultaneously under the Fire Contract. To coincide with the expiration of the City's current agreement with the Fire Association in September of 2005, the agreement with the Police Association also includes a re-opener on the benefits article in fiscal year 2005 which will allow the City to simultaneously work with both the Police and Fire Associations to continue to develop a comprehensive long-term solution for the Fund. Due to the differences in the results of the studies from July 2000 to October 2002, the City in conjunction with both the Fire and Police Associations are also currently in the process of completing an independent review and valuation of the Fund by another actuarial firm. In preparation for the negotiations in 2005, another actuarial valuation of the Fund will be completed, other similar plans and options from around the country will be reviewed, and a long-term dual-track strategy of restructuring benefits programs and increasing contributions will continue to be studied for potential implementation.

B. City Public Service (CPS)

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans and funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs.

These costs approximated $3,600 for 2003. CPS reimbursed certain retirees and their spouses enrolled in Medicare Part B a percentage of the monthly premium, which totaled $211 for fiscal year 2003.

Retired employees and covered dependents contributed $1,300 for their health care and life insurance benefits in fiscal year 2003. There were approximately 2,201 retirees and covered dependents eligible for health care and life insurance benefits. Please note the number of retirees is not stated in thousands.

9. POSTEMPLOYMENT RETIREMENT BENEFITS (Continued)

B. City Public Service (CPS) (Continued)

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1, 2002 valuations are $65,400 for health and $17,300 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $39,400 for health, $5,300 for life insurance, and $2,800 for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $4,800 in 2003. For the health care plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 2002 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year for the health, life, and disability plans, (b) projected salary increases for the plans ranging from 4.5% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 7.5% for 2002 decreasing to 6.0 percent in 2005 and thereafter.

C. San Antonio Water System (SAWS)

SAWS provides certain health care and life insurance benefits for retired employees. Substantially all full-time employees who retire from SAWS may become eligible for those benefits. On December 31, 2002, there were 404 retirees with life insurance and 423 retirees with medical coverage. Please note the numbers of retirees are not stated in thousands.

SAWS provides medical and life insurance for retirees and recognizes the cost of providing these benefits on a pay-as-you-go basis by expensing the annual insurance. Premiums for medical insurance and life insurance amounted to $3,571 and $60, respectively for January 1, 2002 through December 31, 2002. Those and similar benefits for active employees are provided through insurance companies.

10. CPS SOUTH TEXAS PROJECT (STP)

Joint Operations

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the project are Texas Genco, L.P., formerly known as Houston Lighting & Power and Reliant Energy, American Electric Power - Central Power and Light Company, and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28% ownership in the STP represents 700 megawatts of plant capacity. At January 31, 2003 and 2002, CPS' investment in the STP utility plant was approximately $1,700,000, net of accumulated depreciation. Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated and the STP Nuclear Operating Company (STP OPCO), a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP OPCO.

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10. CPS SOUTH TEXAS PROJECT (STP) (Continued)

Nuclear Insurance

The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $88,100, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $10,000 per year per reactor for each nuclear incident. CPS and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the Nuclear Regulatory Commission (NRC), in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $400,000 for the nuclear industry as a whole, provides protection from nuclear-related claims.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1,060,000. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain $2,750,000 of nuclear property insurance, which is above the legally required amount of $1,060,000, but is less that the total amount available for such losses. The $2,750,000 of nuclear property insurance consists of $500,000 in primary property damage insurance and a layer of excess property damage insurance that would contribute $2,250,000 of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at the nuclear plant of any utility insured by NEIL exceed the accumulated funds available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $25,500 during any one-policy year.

Nuclear Decommissioning

CPS, together with the other owners of the STP, files with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1995, the owners conducted a review of decommissioning costs. The results showed that CPS' share of decommissioning costs at approximately $270,000 in 1994 dollars. In 1999, the owners conducted an additional review of decommissioning, and results estimated CPS' share of decommissioning costs are now approximately $311,000 in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2003, CPS has accumulated approximately $183,300 of funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of $69,100 at December 31, 2002. Based upon the 1998 and 1994 decommissioning cost studies, the annual level funding into the trust of $15,900 for 2003 was expensed by CPS.

11. COMMITMENTS AND CONTINGENCIES

A. Primary Government (City)

Grants

The City has received significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a materially adverse effect on the City's financial position at September 30, 2003. Grants awarded by federal, state and other governmental agencies but not yet earned nor received in cash as of September 30, 2003 were $141,775.

Capital Improvement Program

The City will be undertaking various capital improvements to its airport system during fiscal year 2004. The estimated cost of these improvements is $226,586. Approximately $42,829 of the total will be funded by federal grants.

Litigation

The City is involved in various lawsuits related to alleged personal and property damages, wrongful death, breach of contract, various claims from contractors for additional amounts under construction contracts, property tax assessments, environmental matters, class action and promotional practices, and discrimination cases. The Office of the City Attorney estimates the probable liability for these suits, including those mentioned below, will approximate $8,995 which is included as a component of the reserve for claims liability in the amount of $16,179. The estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund. The City makes significant estimates in determining the amounts of unsettled claims under its self-insurance program and believes that the self-insurance reserves recorded in the Self-Insurance Funds are adequate to cover losses for which the City may be liable. It is not determinable whether additional claims or revisions to estimates required for settlement on existing claims could have a material effect on the government-wide financial statements.

Charles and Tracy Pollock, Individually and as next friend of Sarah Jane Pollock, a minor child v. City of San Antonio. This is a nuisance case alleging that benzene gas emitted from the West Avenue Landfill caused chromosomal damage to a fetus during the period of gestation, resulting in Plaintiff's contracting acute lymphoblastic leukemia. Although the trial court has entered against the City a judgment of approximately $20,000, the City believes that $19,980 of such sum ($10,000 in exemplary damages and $9,980 in personal injury damages) is not recoverable by the Plaintiff under a nuisance theory. Even if recoverable, the City believes that damages are capped at $250 under the Texas Tort Claims Act. The City is appealing the judgment.

Matthew Jackson et. al. v. City of San Antonio. This is a Fair Labor Standards Act ("FLSA") lawsuit with 175 named plaintiffs who claim that they were required to report for duty 15 minutes prior to their shift and that they were not compensated for the time in violation of the FLSA. There are several other allegations based on the FLSA, as well. The lawsuit has been filed on behalf of all of the police officers similarly situated to the 175 plaintiffs. The Plaintiffs have a motion pending for class certification that could increase the size of the Plaintiff class to include all officers of the San Antonio Police Department, of which there are more than 2,000. Thus, the potential exists for more officers to join the lawsuit. The City expects to win the lawsuit, but the potential liability, if the case were lost, could be an amount well over $1,000.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Arbitrage

The City has issued certain tax-exempt obligations that are subject to Internal Revenue Service (IRS) arbitrage regulations. Non-compliance with these regulations, which pertain to the utilization and investment of proceeds, can result in penalties including the loss of the tax-exempt status of the applicable obligations retroactive to the date of original issuance. In addition, the IRS requires that interest income earned on proceeds in excess of the arbitrage rate on applicable obligations be rebated to the federal government. The City monitors its bond proceeds in relation to arbitrage regulations, and "arbitrage rebate" is estimated and recorded in the government-wide and proprietary financial statements when susceptible to accrual and in the governmental fund type when matured.

Leases

The City leases City-owned property to others which consists of buildings, real property, and parking spaces. Costs of specific leased components are not readily determinable. Total rental revenue on operating leases for fiscal year ended September 30, 2003 was $16.3 million. As of September 30, 2003, the leases provide for the following future minimum rentals:

	Leases Receivable			
	Governmental Activities	Aviation	Parking	Total
Fiscal year ending September 30:				
2004	$ 1,915	$ 14,275	$ 133	$ 16,323
2005	1,667	14,046	42	15,755
2006	1,454	13,260		14,714
2007	917	1,866		2,783
2008	752	1,558		2,310
2009-2013	2,640	5,853		8,493
2014-2018	2,648	3,833		6,481
2019-2023	1,348	535		1,883
2024-2028	750	288		1,038
2029-2033	725			725
2034-2038	500			500
2039-2043	367			367
Future Minimum Lease Rentals	$ 15,683	$ 55,514	$ 175	$ 71,372

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(amounts are expressed in thousands)

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Landfill Postclosure Care Costs

In October 1993, the City Council approved closure of the Nelson Gardens Landfill which immediately stopped accepting solid waste. Subsequent to landfill closure, Federal and State laws required the City to incur certain postclosure care costs over a period of thirty years. As of September 30, 1994, the City estimated these costs for postclosure of the Nelson Gardens Landfill at $3,800. The estimate was based on estimated costs for installation of a leachate and groundwater collection system, installation of a methane recovery system, geotechnical and environmental engineering services, and monitoring and maintaining the facility for a thirty-year period. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", the estimated postclosure cost of $3,800 for the Nelson Gardens Landfill was recorded as a liability and expensed in the Environmental Services Fund in fiscal year 1994. This cost is an estimate and is subject to changes resulting from inflation/deflation, advances in technology, or changes in applicable laws or regulations.

Each fiscal year, the City performs an annual re-evaluation of the postclosure care costs associated with the Nelson Gardens Landfill. The annual re-evaluation conducted for the fiscal year ended September 30, 2003 resulted in an estimated postclosure care liability for the Nelson Gardens Landfill of $1,061. This represents an increase of $28 from the prior fiscal year for expenditures incurred for geotechnical and environmental engineering services.

TCEQ Financial Assurance

The City is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission (TNRCC), related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the City's North East Transfer Station. Additionally, financial assurance is required to demonstrate financial responsibility for underground storage petroleum facilities. As of September 30, 2001, the permit for the North East Transfer Station has been transferred from the City and the new permitee has provided adequate financial assurance for this facility. Based on the number of underground petroleum storage tanks, the City is required to provide $1,000 of financial assurance related to the underground storage facilities.

Brooks City-Base – Electric and Gas Utilities

The Brooks City-Base Project is a collaborative effort between the U.S. Air Force (the "Air Force") and the City designed to retain the Air Force missions and jobs at Brooks Air Force Base, improve mission effectiveness, assist in reducing operating costs, and promote and enhance economic development at Brooks. On July 22, 2002, the land and improvements were transferred to the Brooks Development Authority (BDA) for the purpose of creating the Brooks Technology & Business Park, a facility which will foster the development of key targeted industries. The Air Force is currently the Park's anchor tenant and is leasing back facilities to perform its missions.

As part of the conveyance, the electric and gas utilities were transferred to City Public Service (CPS), the City's utility. The electric and gas utility systems' infrastructure at Brooks are deficient and require extensive upgrades and improvements. Pursuant to the transfer, the Air Force, BDA, and CPS have committed to make certain improvements and upgrades to the electric and gas utility over a 20-year period. Funding for these improvements include $3,400 from the Air Force and $6,300 from BDA and CPS each, respectively for a total of $16,000.

11. COMMITMENTS AND CONTINGENCIES (Continued)

A. Primary Government (City) (Continued)

Brooks City-Base – Electric and Gas Utilities (Continued)

With respect to BDA's obligation of $6,300, the City has agreed, under certain circumstances and if necessary, to assist BDA in funding its obligation. The City has agreed to contribute to BDA on an annual basis an amount equivalent to the incremental increase in the City's payment from CPS derived from Brooks. The City, as the owner of CPS, receives 14% of CPS' gross revenues and this amount represents additional resources available to the City as a result of its increased payment from CPS derived at Brooks. The first payment is due in fiscal year 2004 and is estimated at $75. Over the 20-year period, the City's annual payments will not exceed $3,400. In the event BDA has exhausted all of its available resources and has been unable to fulfill its obligation of $6,300 by the end of the 20-year term, the City has agreed in good faith to utilize all of its funding options to enable BDA to satisfy its obligation.

Alamodome Soil Remediation

The City has taken an aggressive approach to dealing with environmental issues resulting from the construction of the Alamodome, a multi-purpose domed facility. It is working in conjunction with the Texas Commission on Environmental Quality (TCEQ) on the continued development and implementation of a remediation plan that addresses both on and off-site locations that may contain contaminated soil. As of September 30, 2003, the City has expended approximately $13,447 related to Alamodome soil remediation efforts, inclusive of the supplemental environmental projects, and estimates the remaining cost for soil remediation to be approximately $21. In January 1996, TCEQ issued its Executive Director's Preliminary Report assessing a penalty against the City and VIA Metropolitan Transit (VIA) along with certain technical recommendations for alleged violations in the handling of contaminated soils at the Alamodome site. On February 12, 1997, the City and TCEQ entered into an Agreed Order relating to enforcement actions taken by the Commission against the City and VIA which provided for a reduced penalty amount because of positive actions taken by the City to initiate corrective actions in advance of the Agreed Order.

Under the Agreed Order, the Commission would also defer the remaining portion of the reduced fine upon successful completion, by the City, of certain supplemental environmental projects in the total amount of $628. The City, under separate agreement with VIA, would assume responsibility for the remediation of the remaining sites, with VIA contributing $350 towards these efforts.

The City to date has completed the Supplemental Environmental Projects as identified in the Agreed Order and has received concurrence from the TCEQ that these projects were successfully completed. Additionally, nine of the ten sites that require remedial activity under the Agreed Order have been completed. The TCEQ has provided closure letters for all of these sites. Final remediation is scheduled for fiscal year 2004 for the remaining site.

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11. COMMITMENTS AND CONTINGENCIES (Continued)

B. City Public Service (CPS)

Other

Purchase and construction commitments amounted to approximately $1,400,000 at January 31, 2003. This amount includes approximately $65,400 that is expected to be paid for natural gas purchases to be made under various contracts currently in effect through June 2007; the actual amount to be paid will depend upon CPS' actual requirements during the contract period and the price of gas. Commitments also include $68,300 for pipeline quality gas to be produced from the City of San Antonio "Nelson Gardens" landfill under the contract which is currently in effect through the year 2017. Also included is $31,500 for coal purchases through December 2003, $306,000 for coal transportation through December 2014, and $3,000 for treated cooling water through December 2005, based upon the minimum firm commitment under these contracts.

CPS has also committed to purchase $212,500 in wind power and $20,000 in purchased power; $28,400 for generation plant maintenance services, and $17,000 for distribution system construction and maintenance.

Additional purchase commitments at January 31, 2003, which are related to STP, include approximately $553,300 for raw uranium, associated fabrication and conversion services. This amount represents services that will be needed for refueling through the year 2028.

The PUC promulgated new rules in 1996 designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on the amount of load served by each utility. CPS' cost for calendar years 2001 and 2002 were approximately $5,600 and $11,600, respectively. The estimated cost for calendar year 2003 is approximately $12,800.

Joint Operations Agreement

A 1997 Joint Operations Agreement (JOA) resulted from the litigation settlement with Texas Genco, L.P., formerly known as Reliant Energy, Inc., and Houston Lighting & Power, over its management of STP during the construction and early operating periods. The JOA is an arrangement to jointly dispatch CPS' and Texas Genco, L.P.'s generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. Until June 2002, CPS received, in monthly cash payments, ninety percent of the savings realized from the jointly operated systems. As of June 2002, when Texas Genco, L.P. met the JOA $200,000 cumulative savings obligation, monthly cash payments were reduced to 50 percent of the savings realized from the jointly operated systems. As of January 31, 2003, CPS' total cumulative payments from savings realized was $212,600.

Litigation

Additionally, in the normal course of business, CPS is involved in other legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals and discrimination cases. Also, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

11. COMMITMENTS AND CONTINGENCIES (Continued)

C. San Antonio Water System (SAWS)

Other

SAWS is committed under various contracts for completion of construction or acquisition of utility plants totaling approximately $273,300 as of December 31, 2002. Funding of this amount will come from available revenues of SAWS, contributions from developers, and restricted assets.

Litigation

SAWS is the subject of various claims and litigation which have risen in the ordinary course of its operations. Management, in consultation with legal counsel, is of the opinion that SAWS' liabilities in these cases, if decided adversely to SAWS, will not be material.

12. RISK FINANCING

A. Primary Government (City)

Property and Casualty Liability

At September 30, 2003, the City has excess insurance coverage through North River Insurance Company for liability. The blanket policy provides general and auto liability along with police professional errors and omissions and EMS Medical Malpractice, and Civil Rights and Employee Benefits Liability Coverage. Allianz Insurance Company provides property coverage on the City's building and contents inventory. The City utilizes a third party administrator for the handling of administration, investigation, and adjustment of liability claims.

Obligations for claims under these programs are accrued in the City's Self-Insurance Reserve Internal Service Fund based on the City's estimates of the aggregate liability for claims made and claims incurred but not reported, and Departments are assessed premiums to cover expenditures. There were no significant reductions in insurance coverage. Claims settlements did not exceed insurance coverage for each of the past three years.

Employee Health Benefits

The City provides its current employees with a comprehensive employee benefit program including coverage for medical, dental and life insurance, vision, dependent care reimbursement accounts and additional life insurance for its employees and their dependents. The City's self-insured medical programs are provided to all City employees. Obligations for benefits are accrued in the City's Self-Insurance Employee Benefits Insurance Internal Service Fund based upon the City's estimates of the aggregate liability for unpaid benefits.

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12. RISK FINANCING (Continued)

A. Primary Government (City) (Continued)

Workers' Compensation

The City self-insures for Workers' Compensation. The City is a member of the Texas Municipal League (TML) Workers' Compensation Joint Insurance Fund, an unincorporated association of political subdivisions of the State of Texas. The TML Workers' Compensation Joint Insurance Fund is not intended to operate as an insurance company, but rather is intended to be a contracting mechanism which the City as a member utilizes to administer self-insurance workers' compensation benefits to its employees for claims that occurred prior to September 30, 1986. The City also utilizes third party administrators for the handling of administration, investigation, and adjustment of workers' compensation claims that occurred after October 1, 1986. All loss contingencies, including claims incurred but not reported, if any, are recorded in the City's Self-Insurance Workers' Compensation Internal Service Fund and City departments are assessed premiums to cover expenditures. As of September 30, 2003, the City has excess workers' compensation coverage through the North River Insurance Company. Claims settlements did not exceed insurance coverage for each of the past three years.

Unemployment Compensation Program

The Unemployment Compensation Program of the Self-Insurance Internal Service Fund provides a central account for payment of unemployment compensation claims. As of the fiscal year end, claims were being administered internally by the City and are paid to the Texas Workforce Commission on a reimbursement basis. All costs incurred are recorded on a claim paid basis.

Extended Sick Leave Program

The Extended Sick Leave Program of the Self-Insurance Internal Service Fund is used to pay benefits associated with the City's employee long-term disability plan. Benefits are administered by the City. Actual costs are incurred when extended leave is taken.

Employee Wellness Program

The Self-Insurance Employee Wellness Program Internal Service Fund is used to account for revenues and operating expenses of the City Occupational Health Clinic operated by the San Antonio Metropolitan Health District. The clinic's operation is supported by transfers from the Workers' Compensation Fund and the Employee Health Benefits Fund as expenses are incurred. In fiscal year 1999, the Employee Assistance Program was established to offer City employees short-term mental health, marital, and financial counseling, as well as substance abuse intake and assessment. The Program was funded by a transfer from the Workers' Compensation Fund.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

A. Primary Government (City) (Continued)

Claims Liability

The liability for the Employees Benefits Program is based on the estimated aggregate amount outstanding at the balance sheet date for unpaid benefits. Liabilities for the Insurance Reserve and Workers' Compensation Programs are reported when it is probable that a loss has occurred as of the balance sheet date and the amount of the loss can be reasonably estimated. These liabilities include allocable loss adjustment expenses, specific incremental claim adjustment expenses such as the cost of outside legal counsel, and a provision for claims which have been incurred but not reported (IBNR). Unallocated claim adjustment expenses have not been included in the calculation of the outstanding claims liability as management of the City feel it would not be practical or cost beneficial. In addition, based on the difficulty in determining a basis for estimating potential recoveries and the immateriality of prior amounts, no provision for subrogation or salvage has been included in the calculation of the claims liability. The claims liability reported in the accompanying financial statements for the Insurance Reserve and Workers' Compensation Programs is based on an undiscounted rate.

The following is a summary of changes in claims liability for the City's Insurance Reserve, Employee Benefits, and Workers' Compensation Programs for the year ended September 30, 2003.

Schedule of Changes In Claims Liability

Fund	Liability October 1,	Change in Estimates	Claims & Adjustments	Claims Payments	Liability Balance September 30, [1]
Insurance Reserve					
Fiscal Year 2002	$ 18,531	(2,352) $	6,285 $	(6,285) $	16,179
Fiscal Year 2003	16,179		4,836	(4,836)	16,179
Employee Benefits					
Fiscal Year 2002	$ 4,015	1,351 $	38,980 $	(38,980) $	5,366
Fiscal Year 2003	5,366	3,182	36,997	(36,997)	8,548
Workers' Compensation					
Fiscal Year 2002	$ 18,705	4,500 $	9,946 $	(9,946) $	23,205
Fiscal Year 2003	23,205		10,035	(10,035)	23,205

[1] The Workers' Compensation Liability Balance of $23,205 is comprised of $20,879 recorded in the Workers' Compensation Fund and the remaining liability of $2,326 is recorded in Proprietary Funds.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

B. City Public Service (CPS)

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2001.

In addition, CPS is exposed to risks of loss due to death of, and injuries to, or illness of, its employees. CPS makes payments to external trusts to cover the claims under the related plans. At January 31, 2003, CPS accumulated approximately $122,700 in these external trusts. The trust accounts and related claims liabilities are included in CPS' financial statements. CPS has recorded $23,800 of expense related to these plans for the year ended January 31, 2003.

Based upon the guidance of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the following information is provided regarding the changes in the insurance reserves for property, and employee and public liability claims for the years ended January 31:

City Public Service
Schedule of Changes In Claims Liability

Fund	Liability Balance February 1,	Claims & Adjustments	Claims Payments	Liability Balance January 31,
Property Insurance				
Fiscal Year 2002	9,944	7	(1,327)	8,624
Fiscal Year 2003	8,624	(3,019)	(52)	5,553
Employee & Public Liability Claims				
Fiscal Year 2002	5,840	2,056	(2,888)	5,008
Fiscal Year 2003	5,008	1,968	(110)	6,866
Employee Health & Welfare Claims				
Fiscal Year 2002	0	28,022	(24,381)	3,641
Fiscal Year 2003	3,641	29,425	(28,894)	4,172

The employee health and welfare plan assets are segregated from CPS's assets. They are separately managed by committee whose members are appointed by the CPS General Manager and CEO. These plans have separate financial statements for calendar year 2002. These separately audited financial statements are available upon request from CPS.

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(amounts are expressed in thousands)

12. RISK FINANCING (Continued)

C. San Antonio Water System (SAWS)

Risk Management

SAWS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

SAWS is self administered and self-insured for the first $500 of each worker's compensation and $250 for general liability, automobile liability, public official's liability and $100 for pollution legal liability claim whereby any claim exceeding the self-insured retention limit would be covered through SAWS' comprehensive commercial insurance program. For the year ended December 31, 2002, there were no reductions in insurance coverage from the previous year and there were no claims which exceeded the self-insured retention limit. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

SAWS had recorded a liability in the amount of $1,184 as of December 31, 2002, which is reported as a current liability. The claims liability, including incurred but not reported claims, is based on the estimated ultimate cost of settling the claims. The claims liability includes medical and rehabilitation costs, which are considered incremental claim adjustment expenses. Changes in the liability amount for the last two fiscal years were:

San Antonio Water System
Schedule of Changes In Claims Liability

Year Ended	Balance at Beginning of Fiscal Year Liability	Claims & Adjustments	Claims Payments	Balance at End of Fiscal Year Liability
Seven Months Ended Dec. 31, 2001	$ 2,174	$ 824	$ (1,269)	$ 1,729
Dec. 31, 2002	$ 1,729	$ 1,058	$ (1,603)	$ 1,184

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(amounts are expressed in thousands)

13. INTERFUND TRANSFERS

The following is a summary of interfund transfers for the City for the year ended September 30, 2003:

Summary Table of Interfund Transfers for the Year Ended September 30, 2003

	Transfers From Other Funds	Transfers To Other Funds
General Fund:		
Airport System Fund	$ 230	$ 0
Parking System	261	446
Internal Service Funds	958	2,892
Nonmajor Governmental Funds	10,960	65,048
Nonmajor Enterprise Funds	712	
Total General Fund	13,121	68,386
Debt Service Funds:		
Nonmajor Governmental Funds	25,322	
Total Debt Service Funds	25,322	
Airport System Fund:		
General Fund		230
Internal Service Funds		171
Nonmajor Governmental Funds	1	129
Total Airport System Fund	1	530
Parking Facilities Fund:		
General Fund	446	261
Internal Service Funds		684
Nonmajor Governmental Funds		3,518
Total Parking Facilities Fund	446	4,463
Internal Service Funds:		
General Fund	2,892	958
Airport System	171	
Parking System	684	
Internal Service Funds	1,325	1,325
Nonmajor Governmental Funds	1,098	135
Nonmajor Enterprise Funds	230	
Total Internal Service Funds	6,400	2,418
Nonmajor Governmental Funds:		
General Fund	65,048	10,960
Debt Service		25,322
Airport System	129	1
Parking System	3,518	
Internal Service Funds	135	1,098
Nonmajor Governmental Funds	79,112	79,112
Total Nonmajor Governmental Funds	147,942	116,493
Nonmajor Enterprise Funds:		
General Fund		712
Internal Service Funds		230
Total Nonmajor Enterprise Funds		942
Total	$ 193,232	$ 193,232

(amounts are expressed in thousands)

13. INTERFUND TRANSFERS (Continued)

Transfers are made to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds. These transfers are in the form of operating subsidies, grant matches and funding for capital projects. In addition, transfers are routinely made from other funds to fund debt service payments and for other restricted purposes. All transfers are in accordance with budgetary authorizations.

Other significant transfers by the General Fund include $615 set aside for the purchase of additional ladder trucks from fiscal year 2006 through fiscal year 2009. This is the second year that funds have been set aside for that purpose as the Master Plan recommended in fiscal year 2001 that $615 in funds be set aside each year through fiscal year 2005.

The Enterprise Resource Management Fund was established in fiscal year 2001 to record all operating revenues and expenditures associated with the development and implementation of the new enterprise system. Funding is provided by transfers from the Improvement Projects Fund. This year's support totaled $5,382.

In addition, the Parking Facilities Fund made a $3,318 transfer to the Hotel Motel Tax Capital Improvement Fund to cover demolition costs associated with the Hemisfair parking garage in fiscal year 2003.

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(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the Government-wide Statement of Net Assets.

One element of this reconciliation states, "Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds." The detail of the $42,936 is as follows:

Revenues previously reported as deferred in the fund financial statements	$ 53,280
Receivable applicable to governmental activities, which are not available in the current period	565
Deferred revenues previously reported as income in the fund financial statements	(10,909)
Revenues collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are recognized in governmental funds	$ 42,936

Another element of this reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds". The detail for the decrease related to capital leases is as follows:

Total capital leases reported on the Government-wide Statement of Net Assets	$ 9,796
Less: Short-term available portion reported in fund financial statements	(442)
Net adjustment to decrease fund balance-total governmental funds to arrive at new assets-governmental activities for capital leases	$ 9,354

The details for the decrease related to accrued interest is as follows:

Total Accrued Interest reported on the Government-wide Statement of Net Assets	$ 8,992
Less: accrued interest reporting on the Debt Service Fund	(324)
Net adjustment to increase fund balance-total governmental funds to arrive at net assets-governmental activities for accrued interest	$ 8,668

(amounts are expressed in thousands)

14. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the Government-wide Statement of Activities.

The details of the increase of bond costs are as follows:

Issuance costs expended per fund financial statements	$ 1,206
Less: amounts expended attributable to current period	(13,505)
Total bonds costs	$ (12,299)

The details of the increase of bond premiums and deferred charges are as follows:

Amortization of bond premiums on long-term debt-Debt Service Fund, previously expensed in the fund financial statements	$ 1,436
Amortization of bond premiums on long-term debt-General Obligation Bonds previously expensed in the fund financial statements	678
Less: premiums on bonds and certificates not previously recorded in the fund financial statements	(2,019)
Total amortization of bond premiums and deferred charges (net)	$ 95

Another element of this reconciliation states, "Some expenses reported in the Statement of Activities are not reported as expenditures in governmental funds." The details of the $1,154 are as follows:

Compensated Absences	$ (1,080)
Interest Expense	(704)
Principal Paid on Leases	2,703
Arbitrage Rebate Expense	235
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	$ 1,154

(amounts are expressed in thousands)

15. DEFICITS IN FUND BALANCES / NET ASSETS

Special Revenue Funds

As of September 30, 2003, deficit fund balance at year-end is reported in the HOME Program, Categorical Grant In-Aid, and Community Development Program in the amounts of $33, $513, and $251, respectively. The deficit is attributable to projects for which reprogramming of HOME Program and Community Development Program funds will occur subsequent to year-end. Upon reprogramming of funds, the deficit fund balances will be fully funded. The deficit for Categorical Grant-In Aid is attributable to projects that were overspent and for which local funding will be required to clear this deficit.

The Golf Course Fund had a deficit fund balance of $1,091 as of September 30, 2003. The deficit is attributable to a decline in revenues in recent years due to increased competition by the private sector and extreme weather patterns. In addition, increased labor and equipment costs have contributed to the deficit.

The Emergency Medical Services had a deficit fund balance of $424 as of September 30, 2003. The deficit is attributable to increased costs associated with ambulance services. Upon reprogramming of funds from the General Fund, the deficit balance will be fully funded in fiscal year 2004.

Internal Service Funds

As of September 30, 2003, a deficit of $19,919 in net assets is reported in the Employee Benefits Program. To address specific issues related to the increasing costs of health benefits, a consultant was contracted in fiscal year 2002 to perform a three-year actuarial study and plan design review of the City's Employee Benefits program. The consultant was hired specifically to make recommendations on plan design changes to allow the City to more effectively control costs. Future plan modifications recommended by the consultant to be considered include establishing health care medical management programs focused on providing managed care for employees having chronic, high risk ailments involving high costs such as back pain, high risk maternity, heart disease and depression. Programs such as these will be carefully studied as means of providing long term solutions to address rising health care costs and increasing fund balance deficits. In fiscal year 2004, the HMO, PPO and health benefits third party administrator contracts will be coming up for renewal. The renewals will provide an opportunity to review other options for future plan modifications to address the increasing cost of providing health benefits. Options could include establishment of an Exclusive Provider Organization (EPO) as a means of extending benefits whereby employees select from a more exclusive group of healthcare providers operating under more defined and consistent expense guidelines.

Within the Internal Service Funds, the Workers Compensation Program and the Employee Wellness Program also reported deficit net assets of $4,659 and $80, respectively, at September 30, 2003. The City will fund the deficits through assessments charged to various City funds in future years.

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16. OTHER DISCLOSURES

A. Donor Restricted Endowment

The City of San Antonio has three permanent funds: the San Jose Burial Park Permanent Fund, the Carver Cultural Center Endowment Fund and the San Antonio Housing Trust Fund. The City is only allowed to spend interest proceeds generated from the principal amount for each of these funds. The net assets from these three endowment funds are classified as restricted net assets and are reported in the government-wide financial statements. The principal is required to be retained in perpetuity while the interest is available to cover specific expenditures.

The San Jose Burial Park Permanent Fund generated $35 in interest to be expended for specified purposes. Chapter 713 of the Texas Health and Safety Code governs what expenditures the City may incur when spending the interest income. Per Chapter 713, the revenue can be spent for the maintenance and care of the graves, lots, and burial places, and to beautify the entire cemetery. The principal amount of this fund is increased each year by sales of lots from the San Jose Cemetery.

The Carver's Endowment Fund generated $5 in interest. These earnings can be used for the Carver Community Cultural Center's operating program, or reinvestment expenses (as detailed in the grant agreement). This fund is managed in accordance with the Uniform Management of Institutional Funds Act, which is codified as Section 163.001 in the Texas Property Code. The principal portion of the fund came from a one-time grant from the National Endowment for the Arts.

The San Antonio Housing Trust Fund generated $120 in interest. These earnings may be disbursed to projects with particular emphasis on housing programs as grants or secured loans. All distributions or disbursements of this trust shall be made for the primary purpose of providing additional and continuing housing opportunities for low and moderate income families. This trust shall at all times be governed by, construed, regulated and administered in all respects under the laws of the State of Texas.

17. SUBSEQUENT EVENTS

A. Primary Government (City)

Bond Election

On November 4, 2003, City of San Antonio voters approved a $115,000 bond issue comprised of five individual propositions. These bond propositions include 113 projects throughout the city that will improve streets, drainage, libraries, parks and public health and safety facilities. Sale of bonds and construction of approved projects will occur over three years according to the following schedule:

First Year (2004) – First year of bond sale, work begins on projects
Second Year (2005) – Second year of bond sale, most design work completed
Third Year (2006) – Third year of bond sale, construction initiated on most projects
Fourth Year (2007) – Construction on all projects will be underway or substantially completed

Police Collective Bargaining Agreement

On November 13, 2003, the City Council approved the City's collective bargaining agreement with the San Antonio Police Officer's Association (SAPOA). The collective bargaining agreement is effective from October 1, 2002 to September 30, 2006 and contains an evergreen clause through September 30, 2016. The projected fiscal impact of the four year agreement is $53,400.

City of San Antonio
Texas

Required Supplementary Information Other Than MD&A

(Unaudited)

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City of San Antonio
Texas

Budgetary Comparison Schedule - General Fund

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GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	2003			
	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE
	ORIGINAL	FINAL	ACTUAL	(NEGATIVE)
Resources (inflows):				
Taxes	$ 323,879,353	$ 323,998,717	$ 320,518,083	$ (3,480,634)
Licenses and Permits	14,747,404	14,701,151	13,912,258	(788,893)
Intergovernmental	2,985,627	3,019,892	2,878,131	(141,761)
Revenues from Utilities	174,743,000	174,744,315	210,466,156	35,721,841
Charges for Services	25,288,051	25,379,985	27,283,429	1,903,444
Fines and Forfeits	11,919,302	11,919,304	11,282,396	(636,908)
Miscellaneous	11,308,245	11,047,476	9,810,913	(1,236,563)
Transfers from other funds	12,972,173	13,263,245	13,120,941	(142,304)
Amounts Available for Appropriation	577,843,155	578,074,085	609,272,307	31,198,222
Charges to Appropriations (outflows):				
General Government	67,169,624	71,932,468	53,416,465	18,516,003
Public Safety	357,541,829	363,628,227	361,835,168	1,793,059
Public Works	10,567,266	12,942,577	11,920,629	1,021,948
Health Services	13,458,886	13,602,834	13,814,613	(211,779)
Sanitation	2,521,977	2,511,118	2,515,192	(4,074)
Culture and Recreation	16,314,278	17,049,088	16,317,480	731,608
Welfare	60,786,395	61,805,971	59,119,473	2,686,498
Economic Development and Opportunity	5,414,128	6,905,058	5,537,792	1,367,266
Transfers to other funds	67,612,306	71,236,894	70,377,939	858,955
Total Charges to Appropriations	601,386,689	621,614,235	594,854,751	26,759,484
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	(23,543,534)	(43,540,150)	14,417,556	57,957,706
Fund Balance Allocation	23,543,534	43,540,150	(14,417,556)	(57,957,706)
Excess (Deficiency) of Resources Over (Under) Charges to Appropriations	$ 0	$ 0	$ 0	$ 0

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule.	$ 609,272,307
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(13,120,941)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 596,151,366

Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule.	$ 594,854,751
Differences - budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	(2,779,853)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(70,377,939)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	$ 521,696,959

General Fund Budgetary Information

The City Charter establishes requirements for the adoption of budgets and budgetary control. Under provisions of the Charter, expenditures of each City function and activity within individual funds cannot legally exceed the final budget approved by the City Council. Amendments to line items within a departmental budget may be initiated by Department Directors.

The City's prepares an annual budget for the General Fund on a modified accrual basis which is consistent with generally accepted accounting principles. The annual budgetary data reported for the General Fund represents the original appropriation ordinance and amendments thereto as adopted by the City Council, adjusted for encumbrances outstanding at the beginning of the fiscal year. All annual appropriations lapse at fiscal year end.

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City of San Antonio
Texas

Pension Schedules

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REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

FIRE AND POLICE PENSION PLAN--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
10-01-02	$ 1,341,274	$ 1,630,434	$ 289,160	82%	$ 183,686	157%
10-01-01	1,285,936	1,539,932	253,996	84%	179,554	141%
10-01-00	1,181,582	1,339,954	158,372	88%	168,944	94%

TEXAS MUNICIPAL RETIREMENT SYSTEM--CITY OF SAN ANTONIO

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL (1)	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-02	$ 436,046	$ 566,203	$ 130,157	77%	$ 197,678	66%
12-31-01	412,867	532,821	119,954	78%	189,495	63%
12-31-00	388,462	499,824	111,362	78%	168,040	66%

CITY PUBLIC SERVICE ALL EMPLOYEE PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-02	$ 758,200	$ 691,800	$ (66,400)	110%	$ 180,300	(37)%
01-01-01	713,600	643,500	(70,100)	111%	165,300	(42)%
01-01-00	648,100	610,800	(37,300)	106%	148,900	(25)%

NOTES: (1) Abstracted from City payroll records.

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

REQUIRED SUPPLEMENTARY INFORMATION - (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS
LAST THREE FISCAL YEARS

SAN ANTONIO WATER SYSTEM - TMRS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	UNIT CREDIT ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
12-31-02 (2)	$ 0	$ 0	$ 0		$ 0	
12-31-01	44,613	55,201	10,588	81%	51,958	20%
12-31-00	44,206	53,974	9,768	82%	51,312	19%

SAN ANTONIO WATER SYSTEM - PMLIC

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ENTRY AGE ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
01-01-02	$ 39,270	$ 45,947	$ 6,677	85%	$ 51,303	13%
01-01-01	31,341	40,797	9,457	77%	51,050	19%
01-01-00	26,417	46,229	19,812	57%	48,202	41%

(2) Balances for 12/31/02 not available

(amounts are expressed in thousands)

(unaudited - see accompanying accountants' report)

APPENDIX D

FORM OF CO-BOND COUNSEL OPINION

VINSON & ELKINS L.L.P.
2300 FIRST CITY TOWER
1001 FANNIN STREET
HOUSTON, TEXAS 77002-6760

LOEFFLER TUGGEY PAUERSTEIN
ROSENTHAL LLP
755 EAST MULBERRY, SUITE 200
SAN ANTONIO, TEXAS 78212

WE HAVE ACTED as co-bond counsel for the City of San Antonio, Texas (the "City"), in connection with an issue of bonds (the "Bonds") described as follows:

> CITY OF SAN ANTONIO, TEXAS, MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE BONDS, SERIES 2005, dated April 1, 2005, in the principal amount of $61,060,000.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Ordinance").

WE HAVE ACTED as co-bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, under which the City is acting as a home-rule city of the State of Texas, and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds (the "Official Statement") has been limited as described therein.

IN OUR CAPACITY as co-bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds which contains certified copies of certain proceedings of the City; customary certificates of officers, agents and representatives of the City, and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. I-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Bonds constitute valid and legally binding obligations of the City;

(2) The Bonds are special obligations of the City that are payable from and are secured by a first lien on a pledge of the Revenues of the City of San Antonio Municipal Drainage Utility System, as defined and provided in

> the Ordinance, which Revenues are required to be set aside and pledged to the payment of the Bonds and all additional bonds issued on a parity therewith in the Interest and Sinking Fund and the Reserve Fund maintained for the payment of all such bonds, all as more fully described and provided for in the Ordinance.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

THE CITY HAS RESERVED THE RIGHT to issue parity bonds, subject to the restrictions contained in the Ordinance, which may be equally and ratably payable from, and secured by a lien on and pledge of, the aforesaid Revenues in the same manner and to the same extent as this Bond and the series of which it is a part.

IT IS OUR FURTHER OPINION that:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.

(2) The difference between the amount payable at maturity of each Original Issue Discount Bond (as defined in the Official Statement) and the "issue price" of such Bond (as stated in the Official Statement) is excludable from gross income for federal income tax purposes as original issue discount under existing law.

(3) The Bonds are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the City, the City's co- financial advisors, and the Underwriters (as defined in the Ordinance), with respect to matters solely within the knowledge of the City, the City's co-financial advisors, and the Underwriters, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Purchasers of Original Issue Discount Bonds in the initial public offering are directed to the discussion entitled "Tax Accounting Treatment of Original Issue Discount Bonds" set forth in the Official Statement for purposes of determining the portion of the original issue discount described in paragraph (2) above which is allocable to the period such Bonds are held by an owner. The federal income tax consequences of the purchase, ownership, and redemption, sale, or other disposition of Original Issue

Discount Bonds which are not purchased in the initial public offering at the initial offering price may be determined according to rules which differ from those described above and in the Official Statement.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Very truly yours,

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APPENDIX E

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA

Insurance Corporation

President

Attest:

Assistant Secretary

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

STD-TX-7
01/05